

FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

WEDNESDAY MAY 20 1998



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Mammon
A Financial Times Guide



Nuclear proliferation
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WORLD NEWS

Delors urges a human face for democracy in Europe

Former president of the European Commission Jacques Delors challenged the secret horse-trading between governments that decides who gets the top job, urging candidates to wage public campaigns for the presidency. "This is not a patsch or a coup against the national governments," he said. "The time has come to put a face on European democracy." Page 2; Observer, Page 13

More criticism for Ciampi
A member of the Italian government, public works minister Paolo Costa, has added his voice to the chorus of unease over the way treasury minister Carlo Azeglio Ciampi has slashed spending on infrastructure as part of Italy's attempt to qualify for Euro. Page 3

UK urges free but fair trade
International efforts to improve protection of the environment and uphold core labour standards must not lead to trade barriers against exports from developing countries, UK prime minister Tony Blair told the WTO in Geneva. Page 8

CDU aims at Schröder
German chancellor Helmut Kohl's party, the Christian Democratic Union, stepped up its attack on opposition Social Democratic party candidate Gerhard Schröder and staked its claim to reoccupy the middle ground of politics. Page 2

Washington might move against NZ
The US has threatened action against New Zealand for its move to remove restrictions on parallel imports, allowing importers to bring in brand name goods without a franchise. Page 8

Turks wary on EU talks
Turkey refused to give visiting UK foreign secretary Robin Cook an outright commitment to attend a meeting next week to repair Ankara's severely strained relations with the EU. Page 2

Mexico shocked by arrests
The arrests of Mexican bankers and indictment of three Mexican financial groups on money laundering charges in the US have sent shock waves through the Mexican establishment. Page 4

Milosevic defies Montenegrans
Yugoslavia's crisis deepened as President Slobodan Milosevic named an ally, Momir Bulatovic, as prime minister despite warnings by Montenegrins that it would refuse to recognise him. Page 3

Ethiopia warns of war
Ethiopia said its border row with Eritrea could develop into a full-scale conflict and urged the international community to put pressure on Asmara. Page 7

No more EU duty-free
Duty-free shopping within the EU will be scrapped in 1999, finance ministers reaffirmed. Page 3

French to work 35-hour week
The French national assembly approved a reduction in the working week to 35 hours. Page 2

BUSINESS NEWS

Russia lifts interest rates to 50% in bid to steady rouble and stock market

Russia's central bank raised its interest rates to 50 per cent to shore up the rouble in the face of pressure on state treasury bonds and the currency. The benchmark RTS share index, which fell 11.8 per cent on Monday, rose 4 per cent and the rouble steadied at Rb66.15 to the dollar. Page 14; Editorial Comment, Page 13

Ahold, the Dutch supermarket group, has bid \$2.7bn-plus for Giant Food, a Maryland-based US food chain that UK retailer J Sainsbury had sought to control. Ahold described Giant as "highly compatible with our other US companies". Page 15; Lex, Page 14

Pohang Iron and Steel of South Korea has proposed an equity swap with Nippon Steel of Japan that could lead to a strategic alliance between the world's two largest steelmakers. Page 14

The European Commission has received from the French government a list of assets that troubled French bank Credit Lyonnais will have to sell to gain approval for an estimated FF120bn-FF145bn (\$20bn-\$24bn) state rescue package. Page 15

Sony Pictures is gambling on a monster run to get a return on a \$120m production and marketing budget for its revival of Godzilla tonight on a record 7,363 screens in 3,310 US cinemas. Page 4

Mitsubishi Electric, the Japanese electronics group, said it planned to increase the proportion of European sales manufactured locally from one-third in 1993 to two-thirds by 2000. Page 18

The US Federal Reserve opted to leave short-term interest rates unchanged in spite of recent rapid economic growth and increasingly tight labour markets. Page 4

Drugs for the central nervous system, mainly anti-depressants, outstripped all other prescription drugs in sales growth in the year to February 1998. Sales rose 13 per cent, driven by increases in the US, UK, Spain and Mexico. Page 6

Ving, the Munich-based conglomerate, set its sights on a US stock market listing as it reported a 20 per cent rise in first-quarter pre-tax earnings to DM806m (\$443m) and said it would expand power generation and telecommunications activities in east Europe.

Tengizchevroil, the Chevron-led group overseeing the \$20bn development of the Tengiz oilfield on the Caspian Sea in Kazakhstan, may ask shareholders for more cash as low crude oil prices undermine expansion financing. Page 7

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets. Page 23

Reform offer fails to quell mass protest in Indonesia

By John Riddling and Sander Theones in Jakarta

Indonesia last night faced mass protests that could prove decisive for its future stability after President Suharto's opponents rejected his plans to see through political reforms before stepping down.

The scale of today's demonstration and the response from the armed forces are viewed as a crucial test in determining the prospects for stability in Indonesia. "Everyone is on edge, watching and waiting," said one diplomat.

Mr Suharto, whose 32-year hold on power has been shaken by mounting opposition, said he would hold parliamentary elections "as soon as possible" following a change in electoral laws. He said he would not stand in subsequent presidential elections. His term is due to end in 2003.

Despite the concessions, more than 10,000 students descended on parliament. They said Mr Suharto was trying to buy time through a long transition process and demanded his immediate resignation.

Amien Rais, a Moslem opposition leader, said he would go ahead with today's scheduled mass protests.

Mr Suharto, in his first public statement since riots and looting left more than 500 dead in Jakarta last week, said in a television address: "I will not be prepared to be elected any more. I have taken the decision as president to implement and lead the national reform immediately."

Juwono Sudarsono, environment minister, said new election laws could be in place within two months.

Mr Suharto said he would follow the 1945 constitution, which requires a new leader to be elected by the People's Consultative Assembly, the top legislative institution. "If we do not uphold the constitution, the country will not last long," he said, adding that "bloodshed and even civil war" could result.

The Indonesian leader, who had earlier met leaders of the armed forces, appeared calm and confident. But the situation in Jakarta was tense, with troops and armoured cars taking up



'Buying time': President Suharto yesterday

Picture: Reuters

strategic positions in the city. The US said Mr Suharto's recognition of the need for political reform in Indonesia was "long overdue".

Many foreign citizens have already been evacuated from Indonesia, dealing a further blow to the country's crippled economy, which some foreign bankers

believe could contract by more than 10 per cent this year. Regional markets jumped following Mr Suharto's speech. The rupiah climbed from a morning low of 16,000 to the US dollar to 11,800, while the stockmarket gained 6 per cent in thin trading.

Uncertainty reigns, Page 6

RJB calls for halt to German coal merger

By Andrew Taylor, Utilities Correspondent

RJB Mining, Britain's biggest coal producer, as part of an investigation it is demanding into state subsidies, has asked the European Commission to halt German merger plans to create a powerful coal group.

The proposed merger, between Ruhrkohle Bergbau, Saarbergwerke and Preussag Anthrazit, would create a single German coal mining company, Deutsche Steinkohle.

RAG, the mining and energy group which owns Ruhrkohle, is paying just DM1 for Saarbergwerke, owned jointly by the federal government and the region of Saarland.

RJB is concerned that the nominal price should not reflect hidden subsidies to the merged business. On a broader level, it wants Brussels to investigate state subsidies to the German coal industry, expected to total DM9.25bn (\$5.08bn) this year.

The move comes as the UK government has been conducting a review of its domestic power station fuel policies after warnings of possible job losses in the mining industry.

Reports that UK authorities were considering a complaint to Brussels over German coal subsidies - to promote a wider market for UK coal - prompted an angry response from Gunter Rexrodt, German economics minister, this year.

Mr Rexrodt said: "The British government is apparently reluctant to award new subsidies [to help its own industry]. But it cannot expect German taxpayers to save British jobs at the expense of German ones. The real reason for the British coal industry's problems is that the privatised coal sector cannot even compete in its own market against gas and imported coal."

John Battle, UK energy minister, said yesterday the UK had the cheapest coal production in Europe but was being kept out of German and Spanish markets by unfair state subsidies.

However, Mr Battle ruled out erecting trade barriers against coal imports from other big coal-producing countries such as the US and Australia. He said that Britain wanted to be fair, not protectionist.

France wary of deal, Page 8

Castro denounces EU-US agreement

By Pascal Fletcher in Havana

President Fidel Castro of Cuba yesterday angrily condemned as "confusing, contradictory and threatening" an agreement between the US and European Union aimed at ending their dispute over the US Helms-Burton law against Cuba.

The Cuban leader, addressing the World Trade Organisation in Geneva, said that any agreement made "at the expense of Cuba... would be an unthinkable dishonour for Europe". He also accused the US of committing "economic genocide" with the boycott, which he said had cost the island \$600m.

There was considerable confusion and uncertainty among European diplomats and busi-

nessmen in Havana about just what the deal would mean in practice for European investors on the communist-ruled Caribbean island.

European businessmen operating in Cuba generally welcomed the prospect of a US waiver on the Title IV sanctions provisions in the Helms-Burton law, which threaten to bar from the US the executives of foreign companies investing in expropriated, formerly US-owned properties on the island.

The text of the EU-US understanding also stated that the US administration was prepared to consult Congress on the possibility of obtaining a waiver provision with no specific time limit for Title III of the law. That is the clause that allows US claimants to file legal suits against foreign investors judged to be "trafficking" in expropriated properties.

But European businessmen had some reservations about the so-called "disciplines" agreed in the deal to discourage future investments "in expropriated property in Cuba and about the circumstances under which such disciplines might be triggered."

They also wondered about plans in the accord to set up an international registry of claims on allegedly expropriated properties. Some said this seemed to give a new lease of life to the Helms-Burton law, which has been fiercely opposed by European governments.

European investors took some comfort from the fact that, under the accord, existing investments

in Cuba would not be subject to the new disciplines.

A fact sheet issued by the US Interests Section in Havana hailed the accord as providing "an effective, multifaceted, multilateral regime for supporting American claimants" in Cuba and elsewhere.

No European companies have been sanctioned under the Helms-Burton law but several, including the Spanish Sol Melia hotel chain, Pernod Ricard, the French drinks company, and Premier Oil of Britain, have seen their activities in Cuba come under scrutiny from US officials.

Potential investors in Cuba routinely check all projects for possible Helms-Burton claims.

Israel warns EU over trade boycott

By Judy Dempsey in Jerusalem

Benjamin Netanyahu, the Israeli prime minister, yesterday warned the European Union it had little chance of playing a role in the Middle East peace negotiations if Brussels imposed a boycott of goods from Jewish settlements in the occupied territories exported under an Israeli label.

Speaking at a business conference, Mr Netanyahu said the EU would be considered "a one-sided player" if the boycott went ahead. In fact, he has always been reluctant to involve the EU in any mediating role, except to provide aid to the Palestinian Authority.

His statement prompted a rapid and strongly worded response from the Commission, which said Mr Netanyahu was turning a trade dispute into a political issue rather than addressing the existence of alleged fraud.

A Commission statement said Israel was trying to "politicise a question that relates only to legal issues". The issue, it added, was about correcting an "alleged case of massive fraud" of the regulations on rules of origin governing free trade between the EU and Israel.

Last week, the Commission formally warned Israel it would set to stop imports from the occupied territories which benefit from trade privileges granted to Israel.

It said the Israeli settlements in the West Bank and Gaza, in east Jerusalem and the Golan Heights were "not part of the state of Israel", adding that goods exported to the EU should not benefit from preferential treatment under the EU's trade agreement with Israel.

The Commission said that it had not referred to sanctions or a boycott in discussions with Israel.

Mr Netanyahu said that, if Israeli businesses were damaged by any EU action, they would not be obliged to continue employing Palestinian labour.

"This is what Netanyahu really thinks of the Palestinians," said an EU diplomat.

"He is using them as pawns instead of openly admitting the possibility of fraud. He is trying to show the Commission's complaints are linked to the stalled peace process rather than admit Israel is breaking trade rules."

The Commission statement said: "Any politically motivated reading on the part of the Israeli authorities is their own responsibility."

Yaakov Neeman, Israel's finance minister, will today meet the 15 EU ambassadors to discuss the deteriorating relations. A third of Israel's exports go to the EU, while the EU supplies over 51 per cent of the goods Israel buys from abroad.

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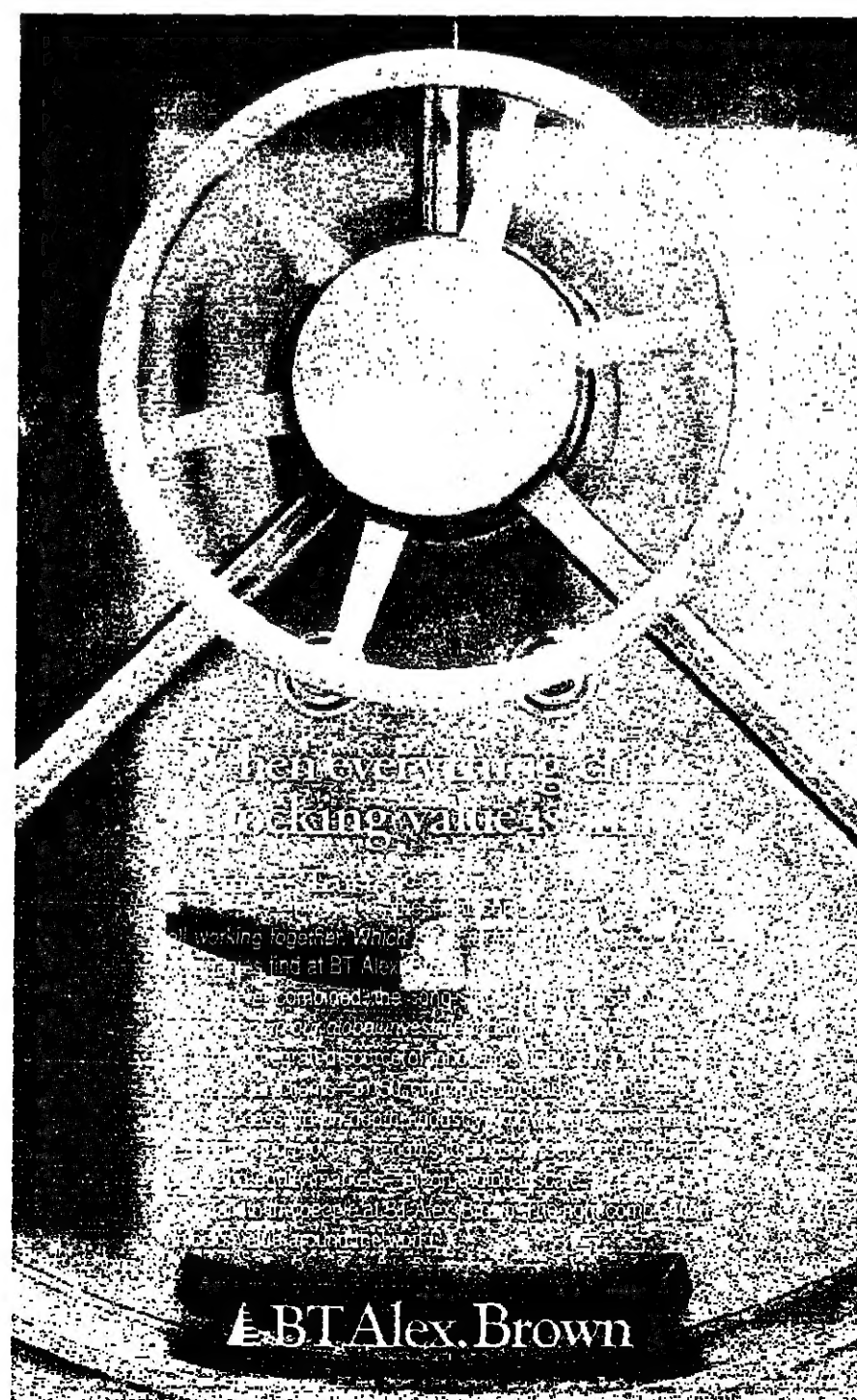
WORLD MARKETS

STOCK MARKET INDICES			
New York: S&P 500	9100.49	(+49.58)	(298.6)
NASDAQ Composite	1845.64	(+14.02)	(298.09)
Europe and Far East			
UK: FTSE 100	3980.84	(+35.53)	
Germany: DAX	3288.00	(+46.65)	
France: CAC 40	3637.8	(+51.8)	
Japan: Nikkei 225	10,351.65	(+167.18)	
US Fixed Income			
10-year Treasury Note	5.43%		
3-month Treasury Bill	5.20%		
Long-term Bond	10.02		
1-year	5.93%		
OTHER RATES			
UK: 3-month bill	7%	(30.00)	
US: 10-year note	100.4865	(100.4865)	
France: 10-year note	103.54	(103.54)	
Germany: 10-year bond	107.19	(107.19)	
Japan: 10-year bond	111.32	(111.31)	
US: 10-year note (Japan)	114.99	(114.78)	

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Ministers spurn plea to delay end of duty-free sales

By Lionel Barber in Brussels

Duty-free shopping within the European Union will be scrapped in July 1999, EU finance ministers reaffirmed yesterday.

A campaign by the powerful duty-free lobby failed to persuade ministers to go beyond offering financial aid. Despite sympathetic noises from Britain, France,

and Germany, ministers stopped short of supporting Irish calls for a study on the impact of the abolition of tax-free shopping. This was seen as one of the last chances to delay abolition, which finance ministers agreed unanimously in 1991 as part of efforts to eliminate tax distortions in the EU's single market.

Ministers agreed instead to

ask the European Commission to spell out regional aid measures to assist areas such as airports and seaports where duty-free shops have mushroomed. The Duty-Free Confederation estimates that duty-free sales amount to \$7.3bn a year, employing around 140,000 people. The UK accounts for around 25 per cent of the total.

Gordon Brown, UK chancellor, who chaired the meeting, noted that only a unanimous decision by all 15 EU governments could have overturned the move to abolish duty-free. "It was clear that unanimity was not attainable."

Jean-Claude Juncker, Luxembourg finance minister and prime minister, said a retreat would sit oddly with

efforts to control excessive tax competition. At least seven other countries stuck to the original decision, according to diplomats.

The Commission argues that in a single market, duty-free sales amount to a huge tax subsidy for the industry and that other alternative sales will spring up for travellers.

But with almost 18m

people unemployed in Europe, hard-pressed governments have found it difficult to resist the power of the duty-free lobby. The Duty-Free Confederation argued yesterday that taxpayers would be expected to pay up to \$3.8bn for the abolition, and that the UK would lose up to 23,000 jobs.

In line with the effort to eliminate tax distortions,

Mario Monti, single market commissioner, will today publish a new directive to introduce a minimum 20 per cent withholding tax on all income from bank accounts and securities held within the EU by EU residents. Alternatively, countries can exchange information about interest payments to EU citizens resident in their jurisdiction.

Milosevic names his ally as premier

By Guy Dinmore in Belgrade

Yugoslavia's crisis deepened yesterday as President Slobodan Milosevic named an ally, Momir Bulatovic, as prime minister despite warnings by Montenegro, one of the federation's two constituents, that it would refuse to recognise him.

Montenegro's public prosecutor has launched criminal proceedings against Mr Bulatovic for leading a mob that stormed government offices in the capital Podgorica in January. Mr Bulatovic was Montenegro's president until defeated by the pro-western Milo Djukanovic in disputed elections in October.

Mr Milosevic and Mr Bulatovic refuse to recognise the victory of Mr Djukanovic who won pledges of financial aid for Montenegro on recent visits to Washington and Europe, in contrast to Serbia's international isolation.

Analysts said Mr Milosevic wanted to strengthen Mr Bulatovic and his Socialist People's party before crucial parliamentary elections in Montenegro on May 31. Victory for Mr Bulatovic would allow Mr Milosevic to boost his powers by changing the federal constitution.

Mr Djukanovic has threatened secession if Serbia, ruled by Mr Milosevic's Socialist party, tries to dominate its smaller neighbour.

Diplomats were alarmed that Mr Milosevic was stirring up another Balkan conflict just days after the US and its European allies lifted an investment ban on Serbia in response to his willingness to start peace talks with the ethnic Albanian leadership in the restive province of Kosovo.

However, the US-brokered peace process was in danger of collapsing yesterday. Kosovo Albanian negotiators threatened to pull out of talks scheduled for Friday because of reported attacks by Serbian police on civilians and a blockade of trucks transporting food to the province.

Behind the shutters Italy's black economy defies government control

Around one-third of workers in the south are employed in 'illegitimate' and often highly successful enterprises, reports James Blitz

A hot weekday morning in Grumo Nevano, an ordinary-looking town in the northern suburbs of Naples. The streets are virtually empty, the shutters of all the main shops and blocks of flats are down, there are hardly any cars moving on the streets.

The impression is of a town observing some obscure local holiday. But behind the shutters, explains Luca Meldolesi, there is more activity than one might think.

"This town is home to one of the liveliest black economies in the country," he says. "There are about 10,000 people working illegally on wages of around L1.5m (\$350) a month. They can be in

clothing, shoes and confectionery. Needless to say, they would rather keep their identities as closely guarded secret."

Professor Meldolesi is an economics professor at Naples university and his in-depth studies of Italy's black economy have made him a figure much respected by the government. Over the last two years, he has spent much time getting to know the people in the black market personally, studying how the largest underground economy in Europe - situated in southern towns such as Naples, Bari, Messina and Catania - operates.

The professor gives examples: there is the small, family-based enterprise near

Lecco that manufactures 1.5m ties a year; there is an ex-policeman in Campania who decided to set up what soon became a hugely successful wholesale vegetable trade; there are the Chinese triads who operate a clothing business in the town of San Giuseppe in the shadow of Mount Vesuvius.

This is an economy that produces occasional stories of child labour, of enterprises that provide goods for well known fashion houses or which are large exporters of gloves, shoes or umbrellas.

"Overall there are probably something like 5m people working in the illegal market, more than a quarter of

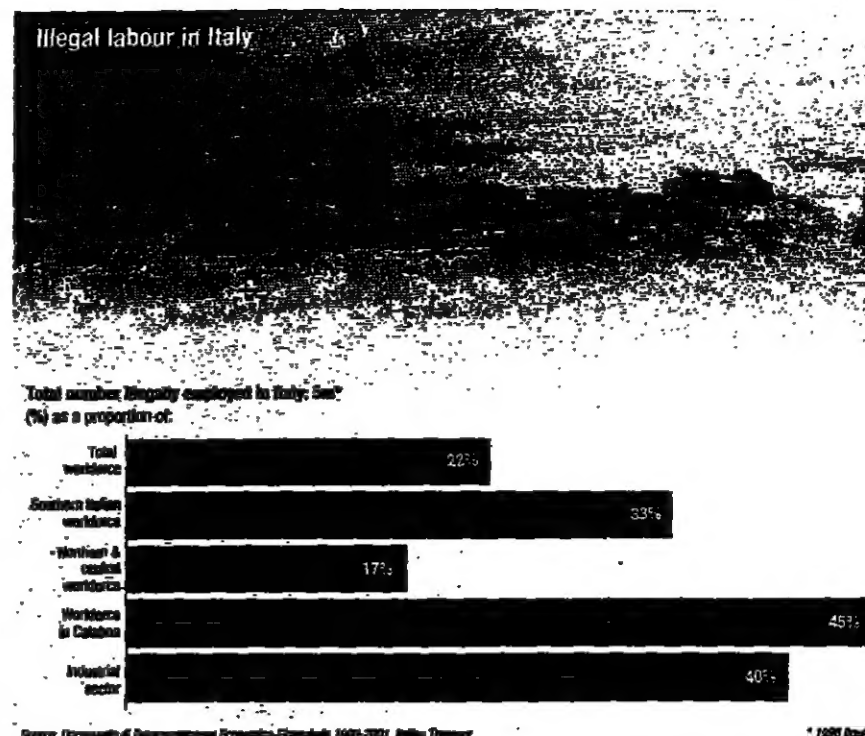
the working population," he says. But here in the south, around one-third of the workforce is illegally employed while in regions like Calabria, the figure reaches some 45 per cent.

Having achieved its task of taking Italy into the European monetary union, the government is now trying to bring this economy into the open. Illegal business deprives the finance ministry of thousands of billions of lire per year in lost revenues at a time when the country is in the throes of fiscal restraint.

No less worrying, black market activity is an inefficient and unproductive method of operation for enterprises that would otherwise have growth potential. "This is a serious problem for our industrial competitiveness," says a senior figure at the treasury. "But crackdowns don't work and some of the phenomena creating illegality are very hard to tackle."

There are two reasons why illegal trading is strong in Italy. First is the large tax on labour: "legitimate" companies and their employees pay a huge tax "wedge" equivalent to around 100 per cent of basic salaries and many black marketers know they would go bust if they paid it.

The fiscal tightening required to qualify to join Emu - as well as the cost of



financing Italy's pay-as-you-go pension system - means these taxes cannot quickly be reduced.

The second problem is the inefficiency of Italian public administration. Istat, the Italian statistical institute, has just published data showing that companies pay an additional 4.5 per cent of production costs just to deal with paperwork generated by local councils. Nor is there much incentive to operate under the umbrella of the law. According to Istat, it takes appeal courts an average of 4.5 years to hear a case from start to finish.

Romano Prodi's government is trying to reform the public administration but

change will not come about quickly. It therefore has had recourse to more subtle methods. More often than not, these are directed at what is called the "grey market", entrepreneurs who do a certain amount of manufacturing in the official economy, hiding the fruits of their illegal work behind locked doors.

The finance ministry is said to be considering a temporary amnesty, for example, for companies that come clean and declare that they have been employing unofficial labour over recent years. Success has been achieved in getting craftsmen working in the black economy to apply for subsidised official training schemes. Consider-

ation has also been given to schemes that allow companies to go official, while being given the right to start paying taxes on a graduated scale.

But these are schemes of limited impact. The best hope for eradicating the underground market is that, somehow, the southern economy will grow strong enough to allow these companies to afford the taxes that are due.

"Twenty years ago, there were plenty of illegal organisations doing business in the north-east of Italy," says Professor Meldolesi. "Today, their internationally known owners would not thank you for reminding them of the fact."

Minister joins campaign to press treasury to drop its spending curbs

A member of the Italian government has added his voice to the chorus of unease over the way Carlo Azeglio Ciampi, the treasury minister, has slashed spending on infrastructure as part of Italy's bid to qualify for Emu, writes James Blitz.

In a sign that the treasury could come under pressure to relax spending in its autumn budget, Paolo Costa, the minister for public works, has attacked the way in which Mr Ciampi has frozen cash transfers to his department,

even though the sums involved had initially been voted by parliament.

"There is nothing more bureaucratic than our treasury's procedures, which have been invented in order to keep cash flow under control," Mr Costa said. "If a Martini landed here and looked at our procedures, he would think us mad."

Addressing a conference on public finance, Mr Costa acknowledged there had been a collective cabinet decision to give the treasury enhanced

control over flows of public money to ensure that Italy qualified for Emu. But he said that "now that we are seeing light at the end of the tunnel", it was time to adopt more "virtuous policies".

The treasury yesterday countered that it was in favour of accelerating investment expenditure, especially in joint private-public sector projects. "If there are limits to how much it is spent, it is because we don't have enough projects coming on stream to qualify for cash subsidy."

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THE AMERICAS

MONEY LAUNDERING OPPOSITION SEEKS RESIGNATION OF GUILLERMO ORTIZ, CENTRAL BANK CHIEF, AFTER WASHINGTON'S CRACKDOWN

Shockwaves in Mexico over US 'sting'

By Leslie Crawford and
Henry Trites in Mexico City

The surprise arrest of Mexican bankers and the indictment of three Mexican financial groups on charges of money laundering in the US sent shockwaves yesterday through Mexico's political and banking establishments.

While government officials sought to defend the integrity of Mexico's financial system, opposition congressmen expressed outrage and humiliation at the US "sting" operation, and demanded the resignation of

Guillermo Ortiz, central bank governor, and of banking regulators, accusing them of negligence.

"Once again, we must learn from a foreign source about what really goes on in our banking system," said Felipe de Jesús Cantú, a deputy of the conservative National Action party. "The inefficiency of our authorities is shameful."

Dolores Padilla, of the Revolutionary Democratic party, said Mr Ortiz should resign because of his role, in 1991 and 1992, as deputy finance minister in charge of bank privatisations. "Privati-

sation and weak supervision have transformed Mexico into a money laundering paradise," she said.

Robert Rubin, US treasury secretary, and Janet Reno, attorney-general, on Monday announced the indictment of three Mexican banks and the arrest of 112 suspects following the biggest money laundering investigation in US history. They said a three-year undercover investigation had exposed widespread money laundering by Mexican bank branches along the US border. In all, 12 Mexican financial groups have been implicated in laundering

money for Latin American drug cartels. Some estimates put the amount laundered through the Mexican financial system at \$8bn a year.

The indicted banks - Bancomer, Mexico's largest, Serfin, the third largest, and Confía - yesterday pledged to co-operate with US and Mexican authorities in their investigations.

"The indictment is a call to attention, but it must be placed in its proper context," said Javier Fernández, Bancomer's chief financial officer. "Of the thousands of transactions we handle every day, Bancomer has

been accused of 50 suspicious transactions in the space of three years."

Banacci, the second largest financial group, has been implicated but not indicted in the US investigations. It said two employees at its Tijuana branch, on the US border, were arrested in connection with the investigations.

In addition to the indictments, four Mexican banks and Santander of Spain have been summoned by the Federal Reserve to explain their detection procedures against money laundering. With Mexican cartels now

controlling a third of the \$50bn market for illegal drugs, according to US government officials, Mexican banking regulators no longer doubt that drug money is being recycled through Mexico's financial system.

In March, the government admitted that Grupo Anáhuac, a small Mexican financial group, had been bought by drug traffickers in 1995. However, Eduardo Ibarra, deputy attorney-general, stressed: "The money laundering accusations should not be seen as an indictment of the entire Mexican banking system."

Radical plan to ensure solvency

By Mark Samman in Washington

A radical plan to ensure future solvency of the US social security system was launched yesterday by a bipartisan, congressional-led commission. It proposed new individual savings accounts that could invest in the stock market and an increase in the retirement age to 70.

The report is the most comprehensive set of proposals in the growing debate over how best to restructure the troubled pension system to ensure it can cope with expected growth in the number of retirees next century.

On current projections, the main social security fund is expected to go bankrupt by 2030, and President Bill Clinton and Newt Gingrich, House speaker, say they hope to propose legislation next year to solve the problem.

Releasing the new study, John Breaux, Louisiana senator and one of four congressional co-chairs of the National Commission on Retirement Policy, said it was designed to serve as a blueprint for future political discussions. "I'm convinced our plan goes way beyond the usual short-term quick fixes and provides a solid middle ground, where I see the Congressional debate going next year," he said.

The commission, made up of 24 lawmakers, academics and private and public-sector officials, unanimously endorsed the controversial proposal to allow individuals to direct 2 per cent of their existing 12.4 per cent payroll taxes into individual savings accounts.

Under the plan, workers would be offered several savings options for these funds, including putting some of the money into the stock market. Any extra costs of managing the transition between the current system and the new one would be covered by the federal government.

US rates unchanged despite growth

By Gerard Baker in Washington

The Federal Reserve opted yesterday to leave short-term interest rates unchanged, in spite of rapid US economic growth over the last few months and increasingly tight labour markets.

The central bank's open market committee has now left rates unchanged since it increased its target for the federal funds rate by 0.25 percentage points to 5.5 per cent in March last year.

Alan Greenspan, Fed chairman, has repeatedly warned that output growth, which reached an annual rate of 4.2 per cent in the first three months of the year, is too fast and will eventually lead to a resurgence of inflationary pressures if it does not slow.

Signs of inflation have begun to emerge recently.

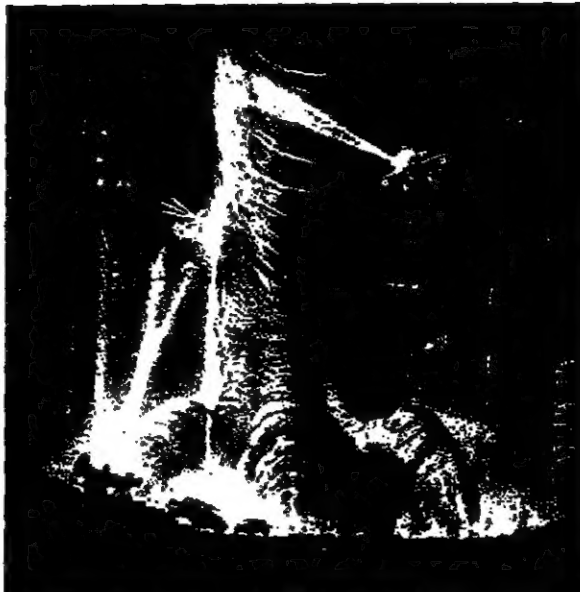
Most notably, average earnings rose by 4.4 per cent in the year to April, the sharpest increase for 15 years, as unemployment fell to 4.3 per cent, the lowest level in 28 years.

But Mr Greenspan and his colleagues remain confident that special factors - especially warm weather - were behind acceleration of growth at the start of 1998 and that growth will slow this year as the full effect of the Asia crisis begins to be felt by companies.

But if the economic data point to continuing rapid growth over the next six weeks, Mr Greenspan will come under intense pressure from some members of the policy-setting committee to raise rates.

There was some evidence to support expectations of a slowdown in a report yesterday from the Commerce Department, which said new housing starts fell for the second straight month in April, after exceptionally fast growth in the first two months of the year.

It's bigger, it's badder, and it's back... Hollywood is hoping for a monster hit with the new Godzilla



Left: the original Godzilla battles a bionic monster. Right: foot of latest Godzilla dwarfs trucks and people in New York

By Michioyo Nakamoto in Tokyo and Christopher Parkes in Los Angeles

Godzilla is back, bigger and badder than ever, and seemingly bound to trample anything that gets in its way.

Sony Pictures has tried to make sure of that with full-power promotion and bookings for tonight's official US opening on a record 7,363 screens in 3,310 cinemas.

But as all Japan knows, there is more to the 44-year-old fire-breathing monster than backdrops on sets.

Hollywood's version may have the legs - in the indus-

try jargon - for a run long enough to return a handsome return on its \$120m production costs and luxurious marketing budget.

But it takes more than super-duper special effects and marketing to generate the staying power of the original *Gojira*, released in Japan in 1954, and subject of numerous remakes and revivals, comics and other ephemera until its official "death" in 1995.

Created by Tomoyuki Tanaka, who died last year, *Gojira* captured the Japanese imagination from the outset when the release of

the first film coincided with reports that Japanese fishermen had been exposed to the fallout from atmospheric nuclear tests in the Pacific.

"Although it was frightening, it evolved into a movie star that entertained its audience," said Shogo Tomiyama, who produced the last six *Gojira* films.

Although *Gojira* was always destructive, regularly trampling Tokyo as the bullets bounced off its reptilian hide, it gradually emerged that this was no vindictive lizard, just a displaced mutant ill at ease in the presence of man. As Mr

Tomiyama said, the durability of its appeal in Japan owed much to the mystery surrounding the beast - its unknown origins and unknown destination when it routinely disappeared at the end of each film.

The inevitable vanishing act was catharsis enough for Japanese cinemagoers, he said. "US entertainment films are about people who overcome difficulties." They prevail - and catharsis is achieved - by killing the interloper, "so the question is whether the [Sony] TriStar team has been more creative in that respect."

The answer, of course, is No. *Godzilla* falls (naturally, not without leaving the door open for a sequel or three), serving US audiences' tastes, true to Hollywood tradition, and, according to Mr Tomiyama's theory, robbing it of a shot at enduring stardom in the *Gojira* tradition.

New York, rather than Tokyo, bears the brunt of the monster's wrath in this week's release. Transformed from its portly, flat-footed role model, it is sleek, sprightly and deeply ugly in the Jurassic Park mould.

Sony's expectations high. *Godzilla*, the latest from

Roland Emmerich, the German director, whose *Independence Day* stormed the box office worldwide in 1996, has been the subject of one of the most protracted and least revealing teaser promotions on record. "Size does matter" - the copy line has been seen everywhere from the backs of cinema tickets to the sides of 20-storey buildings on Hollywood Boulevard.

Few can have avoided the fallout of a blitz which has reached into the inner sanctum of US government.

Even Madeleine Albright, US secretary of state, was to make her contribution to the campaign recently when she noted: "Perhaps the most high-level visit between the US and Japan will occur... when... *Godzilla* will come to New York."

"I hope you will excuse me if I decide to skip the state dinner."

Mr Suzuki said: "The old *Gojira* had become rather predictable. There was a limit to what we could do with it, given our budget and technology." He thought there was even a chance Toho would resurrect the series after analysing how audiences reacted to the Hollywood version.

"It is difficult for a frightening monster to last through many sequels," he said, predicting the benign *Gojira* would eventually return to Japan, where he is loved rather than feared.

"I know it's late, but I'd like some sushi. How far do I have to go?"



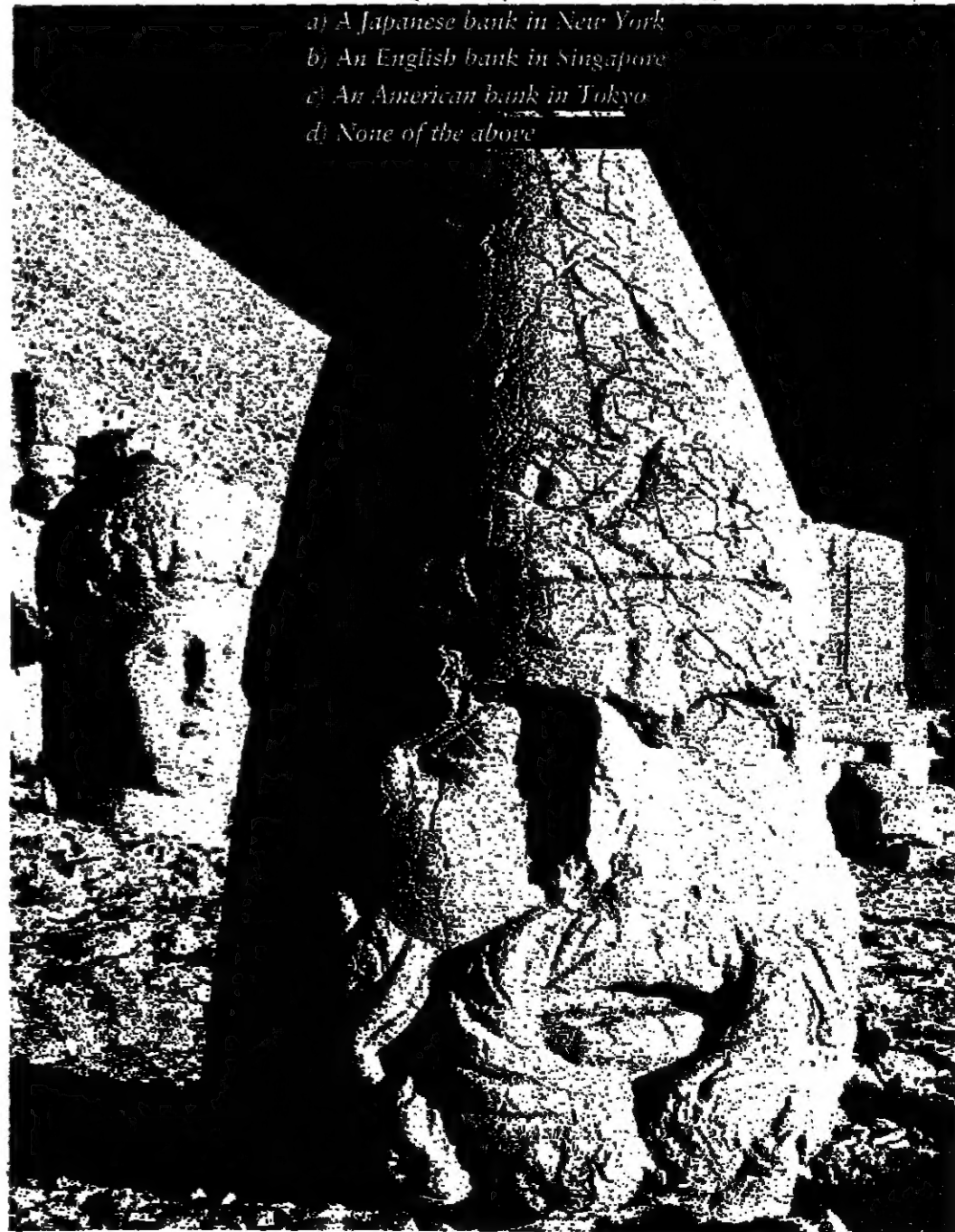
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THE MICROSOFT CASE

ANTITRUST CHARGES COMPUTER MAKERS SEEN IN 'LOSE-LOSE' SITUATION IF THEY TAKE SIDES OVER MICROSOFT

PC industry keeps low profile

By Louise Kehoe
in San Francisco

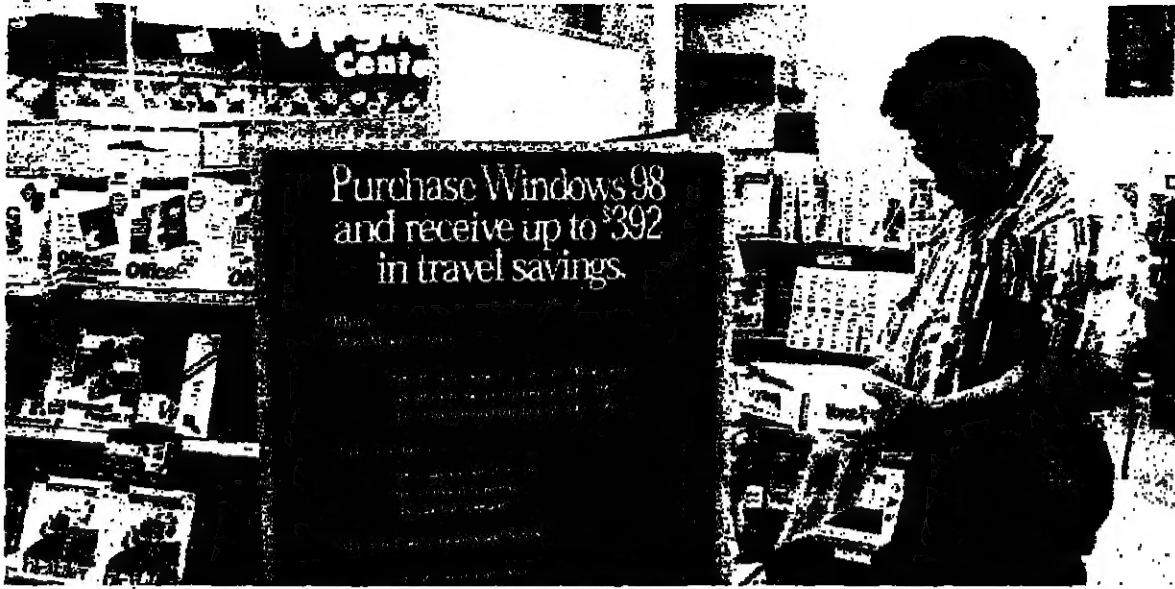
Microsoft's partners in the personal computer industry and even some of its loudest critics have suddenly become wary of taking sides in the wake of government antitrust lawsuits filed against the software industry leader on Monday.

PC companies and others who rallied behind Bill Gates just two weeks ago, warning that any delay in shipping the Windows 98 operating system would be a disaster for the industry and have a broad impact on the US economy, are now distancing themselves from the antitrust debate.

Intel, which dominates the market for microprocessors used in personal computers and is one of Microsoft's closest partners, said it had no comment on the lawsuits or their potential impact on the industry. Intel itself is the target of an antitrust investigation by the Federal Trade Commission.

Compaq Computer, the world's largest PC maker, said only that Microsoft's internet browser "meets the market requirement". The company did not comment on the Justice Department's demand that Microsoft separate its browser from Windows, or alternatively that Microsoft bundle a copy of Netscape Communications' rival browser with every copy of Windows.

Neither was Compaq impressed with the govern-



Just browsing: the software department in a Burbank shop promotes the release of Windows 98

ment's demand that Microsoft give PC makers more flexibility in the way they configure the "opening screen" that PC users see when they first turn on their computers.

According to the government's lawsuit this would enable PC makers to highlight software of their choosing - whether from Microsoft or from other suppliers - providing consumers with a wider range of choice.

However, Compaq said it was "pleased with the current arrangement that we have with Microsoft" with regard to the start-up screen.

Dell Computer was simi-

larly reticent. "We've made our thinking about the timely release of Windows 98 abundantly clear," the company said. It said it would await the outcome of the lawsuit and respond accordingly.

Currently, Dell computers are delivered with Microsoft's internet browser. Customers who want to have Netscape software pre-installed must pay extra.

The PC industry is in a "lose-lose situation" if it takes sides on the antitrust issue, industry commentators said. On the one hand, it risks antagonising Microsoft, upon which it relies for critical software.

On the other hand, there is some fear that the industry may be viewed as having colluded with Microsoft in alleged anticompetitive activities.

Sun Microsystems, which is involved in a bitter legal struggle with Microsoft over Sun's Java programming language and has been an outspoken critic of Microsoft's business practices, said yesterday that it "applauded" the Justice Department's action.

"We may never know how our company would have developed in the absence of the kinds of anti-competitive behaviour that formed the basis of the government's case,"

Netscape, which is depicted as the victim of

Microsoft's alleged exclusionary practices in the government's lawsuits, similarly expressed its support of the department and the states involved in the legal action.

"We believe government investigators have examined the case thoroughly and would not have brought action against Microsoft unless their investigations had uncovered serious violations of the law," Netscape said.

"We may never know how our company would have developed in the absence of the kinds of anti-competitive behaviour that formed the basis of the government's case."

Economists' opinions berate Microsoft

By Richard Wolfe
in Washington

Two leading US economists have accused Microsoft of harming computer users by adopting anticompetitive behaviour to protect its monopoly in operating software.

The economists said Microsoft's alleged strategy of restricting competition in operating software and internet products would slow the development of new technology and increase prices to consumers.

Their opinions have been filed in court as expert evidence to back the antitrust lawsuits launched on Monday by the US government and 20 states. Antitrust officials have asked a federal court in Washington for an injunction to end Microsoft's allegedly restrictive contracts with computer makers and internet service companies.

Franklin Fisher, econom-

ics professor at Massachusetts Institute of Technology, said Microsoft was attempting to protect its monopoly in operating software by using anticompetitive actions against Netscape Communications, its rival in internet software.

In written evidence, Mr Fisher attacked Microsoft's actions for sending a message to all software developers. "Microsoft will impede any innovation that threatens the dominance of Windows," he said.

He added: "If Windows is truly a superior product, it will succeed on its merits. The actions Microsoft is taking will prevent that from being necessary."

David Sibley, economics professor at the University of Texas at Austin, said Microsoft had tried to constrain choice in internet browsers, which navigate the world wide web.

Mr Sibley - a former head of economics at Bell Commu-

nications Research - accused Microsoft of giving up profits on browsers as part of a strategy to "blunt" any possible threats to its flagship product, Windows operating software.

He added that unless the current trend in market share was stopped, Microsoft would soon establish a monopoly in internet browsers, which would eliminate any threat to its dominance in operating software.

Microsoft's political backers staged a public show of support in Washington yesterday, condemning the government for attacking Microsoft's business practices.

Patty Murray, senator for Washington state, which is home to Microsoft, said: "A number of Microsoft's competitors have convinced some Justice Department lawyers to try to get in court what they have not been able to get through open competition in the marketplace."

Wall St sees good times for software producers

By Richard Waters in New York

Wall Street yesterday looked beyond the Justice Department's assault on Microsoft, pushing the company's shares back up after the beating they took when news of the antitrust suit first emerged.

The rebound - and the continued rise of other software stocks - appeared to reflect a view that has taken strong hold in recent months: that a new generation of cheap PCs, while posing a threat to some makers of computer hardware, will be good news for software producers.

Against that prospect, the Justice Department's legal attack, likely to take years to resolve, was seen as only a distant threat to the maker of the Windows operating system.

Microsoft's shares rose 5%

in early trading in New York yesterday, a gain of more than 1 per cent, before falling back slightly to \$86. The day before it had lost \$3.

The stumble in Microsoft's share price this week remains modest by the standards of the volatile technology industry, and leaves the company's stock still a third higher than its level at the start of the year.

Other pillars of the sector have fallen much harder in recent days, reflecting the tougher times faced by hardware makers. Hewlett-Packard's shares have lost a fifth of their value since the company's surprise profit warning late last week. Intel also lost ground last week on concerns about falling computer chip prices. Both companies have been hurt by the rise of cheap computers.

Despite this, the sector as a whole has remained one of the main engines of the bull market.

Among the latest crop of high-fliers in the technology sector, Dell Computer continued to soar yesterday on hopes that it had avoided the troubles that have hit other PC makers. Its quarterly earnings were due to be released after the stock market closed last night. At \$86, the shares were \$53 higher than they had been at the start of the year.

The success of Cisco Systems, meanwhile, continues to reflect the spreading popularity of the internet, which has boosted demand for the routers, switches and other networking equipment on which the internet runs. At \$79, Cisco's shares have risen nearly 60 per cent over the same period.

Department likely to seek quick action

By Louise Kehoe

The first hearing in the Justice Department's landmark antitrust lawsuit against Microsoft is expected to take place in Washington on Friday and the government is expected to push for expedited action on its request for a preliminary court order imposing broad restrictions on the software company.

The case will be heard by

Judge Thomas Penfield Jackson, who sided with the government in an earlier case against Microsoft when it was accused of violating a 1995 antitrust settlement agreement. That case is now on appeal.

Judge Jackson criticised Microsoft's tactics in the earlier case, in which he concluded that its Windows 95 operating system and its internet browser could easily be separated.

In part, arguments in the new case are expected to be similar. The government is demanding that Microsoft either de-couple its internet browser from Windows 98, the latest version of the software, or include an alternative browser from Netscape, its rival.

In addition, the government is seeking changes to Microsoft's contractual arrangements with PC makers, internet service providers

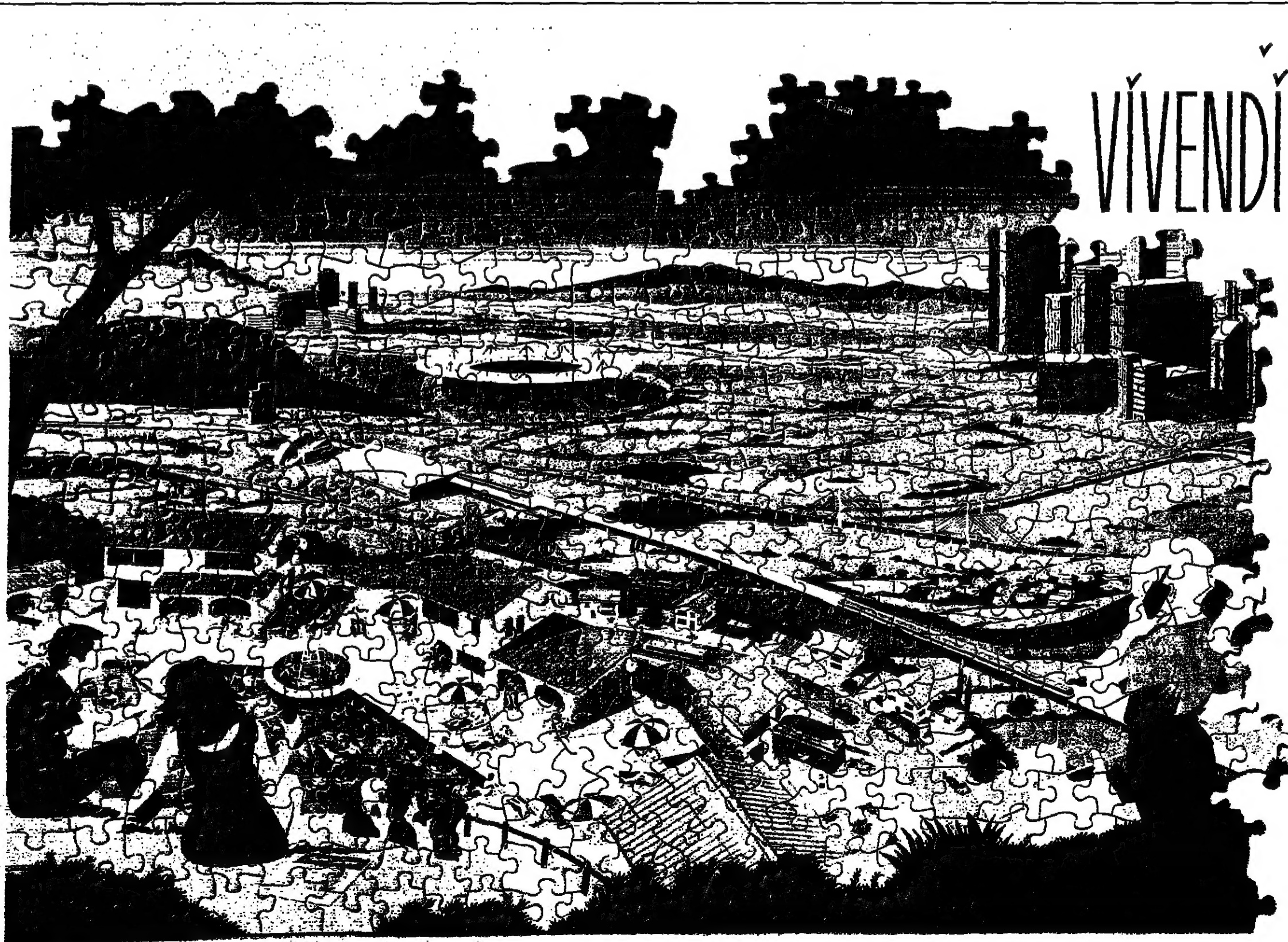
and online services such as America Online.

Microsoft lawyers are already expecting an appeal against Judge Jackson's ruling on the preliminary injunction.

The preliminary injunction phase of the Justice Department's lawsuit could be concluded in weeks, he predicted, but the main body of the case, in which it will have to prove its allegations that Microsoft has abused its

market power, could drag on for years.

The similar case against Microsoft filed by 20 state attorneys general and the District of Columbia is likely to be consolidated with the Justice Department case, legal experts said. However, it was not clear how additional issues relating to Microsoft's office productivity software, raised only in the states' case, would be handled.



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ASIA-PACIFIC

Food shortage Suharto compromises, but uncertainty reigns

fears grow in Indonesia

By John Riddling in Jakarta

Shipments of grain and other foodstuffs to Indonesia are being severely disrupted by the country's upheaval, raising fears of shortages that would further worsen the country's economic crisis, according to trade officials and bankers.

"Some previous contracts are still coming through. But new deals are grinding to a halt and we are seeing trade being suspended," said a western trade official. "There is not a foreign bank on the planet that would accept a letter of credit from an Indonesian bank at the moment."

Disruption to Indonesia's transport and distribution system, partly the result of recent attacks on ethnic Chinese businesses, has compounded the problem. Further concerns centre on the safety of warehouses and the reliability of transport after last week's riots.

While Indonesia has a large rural economy and is a major rice producer, drought and population pressures have made it increasingly dependent on food imports. "They are looking to import several million tons of rice this year," said one diplomat. "They also need soybeans, grain, beef and animal feed."

Indonesia's National Logistics Board (Bulog) said it had sufficient supplies of foodstuffs to respond to the upheaval. "We have enough

stocks for the people's basic needs, and we will continue market operations," said Baidi Amang, head of Bulog. National stocks held 2.4m tonnes of rice, 475,000 tonnes of sugar and 443,000 tonnes of wheat.

With Indonesia's economic crisis deepening and the financial system paralysed, diplomats warned of growing problems. Prices of meat, rice and vegetables in Jakarta have risen by 10 per cent since last week's riots, adding to sharp increases since Indonesia's economic crisis began last year.

Thai exporters are increasingly concerned about payments from Indonesia. "The situation there raises a lot of questions, and risks we are not ready to take," said the Thai Rice Exporters' Association.

"Unless letters of credit are guaranteed by institutions in third countries, such as Hong Kong or Singapore, we have to suspend shipments." Many Thai rice and sugar exporters are demanding payment in cash.

Some of Indonesia's largest suppliers, including Australia and the US, have introduced funding programmes designed to revive trade. These are based on Indonesia's central bank using funds deposited abroad to guarantee letters of credit.

"These programmes have been in place for several months," said one trade official, "but they are moving very slowly."

By Sander Theones and John Riddling in Jakarta

Confident and even jovial at times, President Suharto appeared live on Indonesian television yesterday in what observers regarded as another attempt to buy time.

He promised a speedy reform of electoral laws, followed by elections "as soon as possible" for an assembly that would then elect a new president. "I will not run for president again," he said.

By Mr Suharto's standards, this was a big compromise. But dates and details are lacking and observers

felt it would be months before the president would be replaced.

To some critics, such as Abdurrahman Wahid, chairman of a large Muslim organisation, that was enough, even as he insisted he still wanted Mr Suharto. "But if we follow the constitution - we can't do it in one or two days. This will take months," he said. "Please stop demonstrating."

Others believed that Mr Wahid and other Muslim leaders preferred a few months of Mr Suharto to his replacement by B.J. Habibie, the unpopular vice presi-

dent. Mr Suharto proved yesterday he still commanded the loyalty of the military's top brass. On Monday night

General Wiranto, chief commander of the armed forces, rejected a call by parliamentary leaders for the president's resignation and threatened a military crackdown against protesters.

"Suharto's position has strengthened after what Wiranto said last [Monday] night," said Salim Said, a military analyst, rejecting suggestions of a split in the army. "They may have their own egos, but when they

face the outside world they are united."

Student leaders had long planned nationwide protests for today and, if the crowd of more than 10,000 students in front of parliament and smaller protests by white-collar workers near the Jakarta Stock Exchange yesterday are anything to go by, they will be large.

"All of us just want Suharto to step down now," said Ari Wibowo, an engineering student protesting inside parliament. "If the majority of the people support reform, one day the army will join us."

Many Jakartans reacted to Mr Suharto's statement by rushing to the markets to stock up on food while shop owners emptied their shelves and said they would close down today, fearing widespread unrest.

Investors at first reacted with relief at the prospect of a peaceful transition, but soon worried that the economy may not survive a protracted change of leadership. "In some ways, the worst outcome is continued uncertainty," a western trade official said.

Nilesh Jasani, regional strategist at S.G. Securities,

predicted a fall in gross domestic product of 15 to 20 per cent this year.

Indonesian consultants estimated yesterday that exports of the 20 main non-oil export commodities had dropped 57.7 per cent in March compared with January, a drop in monthly revenues of \$1.65bn. This increases fears of a sovereign debt default as reserves fall sharply.

"We are seeing the onset of paralysis in trade and shipping," said Mr Jasani. "I've been in Nigeria and I've never seen anything like this."

The actors to watch in Jakarta's political drama

By Sander Theones in Jakarta

Foreign and Indonesian observers alike have lost track of the power struggle in Jakarta and are confused by the "Kremlinology" - watching the kingmakers and leaders who meet the president, lobby in parliament or talk behind doors with generals. They are:

Amien Rais. An American-trained academic and chairman of the Muhammadiyah, one of the two largest Muslim organisations, Mr Rais has emerged as President Suharto's most dynamic opponent. He has rejected government offers of a compromise and will settle only for Mr Suharto's resignation. Sharp and ambitious, he is distrusted by many in the opposition for his populist talk, his earlier jibes against the ethnic Chinese minority and his ties to some of the generals. But others have come around to his side, for lack



of another leader, and are persuaded he is a moderate. **Abdurrahman Wahid.** Better known as Gus Dur, Mr Wahid heads the other leading Muslim group, Nahdlatul Ulama, and was the most powerful opposition figure to accept Mr Suharto's request for time yesterday. Recognised as one of Indonesia's leading intellectuals, a moderate and an ally of the reformist military who has warned against the rise of fundamentalist Islam, Mr Wahid lent a leadership vacuum when he was struck by a stroke late last year. "He may have decided that a few more months of Suharto would be better than chaos," one diplomat said.



Megawati Sukarnoputri. Mrs Megawati, daughter of the late President Sukarno, has often been mistaken for another Aung San Suu Kyi. But even her fans admit she is a very hesitant leader, pushed by her father's followers into a role she fears to take. She agreed to head the Democratic party but was pushed out in a party struggle engineered by Mr Suharto. "She is still the only one who can lead Indonesia. She has people's power," said an aide.



Harmoko. Long the butt of jokes for his colourless loyalty to Mr Suharto, Mr Harmoko surprised friends and foe on Monday by asking the president to step down and convening a meeting of the four factions of parliament that could lead to an impeachment procedure. However, some believe his



challenge was in fact a theatrical play directed by Mr Suharto. **Wiranto.** General Wiranto, chief commander of the armed forces, disappointed many moderate opposition groups who thought he would rise to the occasion and persuade Mr Suharto to step down peacefully. Instead, he has made a number of bombastic statements, that, to observers, reveal both his continued loyalty to the president and his weakness as a leader.

Prabowo Subianto. Mr Prabowo shot up the ranks of Indonesia's army to become commander of the strategic reserves earlier this year. Much of his rise he owes to his marriage to Mr Suharto's daughter, but he is also recognised as one of the military's sharpest minds. For many observers he is the dark prince in this Shakespearean power struggle, accused of orchestrating last week's shooting of six students and sparking the riots. But he appeared to stick by his father-in-law and Gen Wiranto, preventing a split in the military. "If Suharto goes, Prabowo is finished," one diplomat said.

B.J. Habibie. Indonesia's vice-president would be the constitutional successor to Mr Suharto if he were to step down. He lacks any political base other than his lifelong attachment to Mr Suharto. He has kept a low profile in recent days.

China's engines start going into reverse

Seven consecutive months of falling prices, driven by chronic oversupply, are evidence of an acceleration in the deflationary trend, write James Kyng and James Harding

The herdman stood by a stream near mountains that fell away like a Chinese painting. But when he was told he lived in a beautiful area, his face darkened. "Beautiful is beautiful, but life here is poor," he said. The price of his six cows had fallen by two thirds in the past two years and he planned to sell them all this autumn. "I'm getting out of herding. I'll be free," he added.

His condition is common right across China, not only among some 900m people who live off the land but also in primary industries and even among manufacturers making successful new Chinese brands.

Seven consecutive months of falling prices, driven by chronic oversupply, have slashed profit margins and forced farmers and corpora-

tions to rein in future output. The deflationary trend is not new, but it appears to be accelerating.

"All across the region - in Taiwan, Japan, South Korea, south-east Asia and China - what we are seeing is a dramatic, and I stress the word dramatic, intensification of deflationary pressures," said Michael Taylor, chief economist, Indosuez W.I. Carr Securities in Hong Kong.

China's deflation was seen last year as a symptom of slowing growth but now it appears to be becoming a cause. Expectations of slowing demand and rising prices have long been a driving force for corporate investments. But sustained price declines threaten to turn the entrepreneurial engines into reverse.

Evidence of falling prices, both statistical and anecdotal, is overwhelming. The retail price index fell by 2.1 per cent in April, its steepest monthly retreat yet. Price wars have broken out between suppliers of white goods, airline tickets, computers, cars, animal fodder and other products.

Some petrochemicals prices are down by as much as 15 per cent year-on-year, the prices of some steel products have fallen 20 per cent in the last year and the market price of some coal - which generates 75 per cent of China's power needs - has fallen 25 per cent since the end of last year, company executives said.

Chinese leaders have deflected gloomy scenarios of declining growth by saying that spending on fixed assets is to total US\$750bn over three years.

But such figures can be

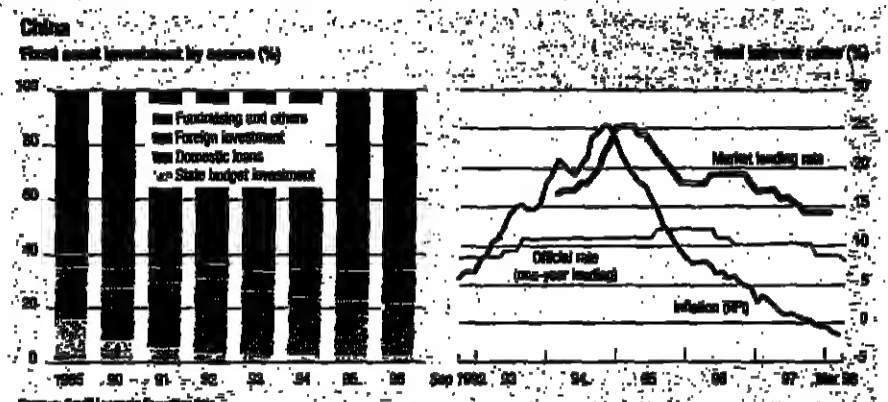
misleading. Central government spending accounts for around 2 per cent of total fixed asset investment, meaning that China's leaders have limited direct power over investment. Most of the fixed asset spending in China is now determined by companies and banks, both of which increasingly take their cue from the market.

But it is not only deflation which may cause investors to hesitate. Exporters, which last year provided 20 per cent of gross domestic product growth, are finding competition from south-east Asian rivals increasingly tough, officials said. Exports grew 11.6 per cent in the January to April period, down 15.3 percentage points from the same period a year earlier.

Foreign direct investment in April plunged 19.4 per

cent to \$3.12bn from the same month a year ago. In the first four months it grew by less than 1 per cent as investments from Japan, South Korea, Indonesia and Thailand have shrivelled more than 80 per cent of China's foreign direct investment, which hit a record \$45m last year.

The reform of state enterprises, though it addresses fundamental industrial weaknesses, is also acting as



one Chinese economist. But many believe that unless Beijing takes urgent measures to stimulate domestic demand, deflationary forces could sap economic vigour just at the time when swelling ranks of retive unemployed will be looking for a job.

Shawn Xu, economist at Merrill Lynch in Hong Kong, identified housing reform and increased bond issuance to fund infrastructure spending as two ways to stimulate demand.

Just last week, China unveiled a list of 117 key infrastructure projects to be carried out this year, more single projects than in any previous year, according to the State Development and Planning Commission.

Also, China plans to increase housing loans to around RMB100bn (\$12bn) this year - RMB72bn more than last year - but the official Economic Daily last week described this as "inadequate" to ensure a national growth rate of 8 per cent.

Notification of Dividend

The Annual General meeting held on May 19, 1998 confirmed the distribution of a dividend of DM 2.00 per share valued DM 5.00 at par for the financial year 1997.

The dividend will be paid on or after May 20, 1998 net of 25% withholding tax plus an additional surcharge of 5.5% against submission of dividend coupon No. 16 as appropriate at one of the paying agents listed in issue No. 93, dated May 20, 1998 of the German "Bundesanzeiger" (Federal Gazette).

In the United Kingdom the dividend payment, which is free of charge, will be made in Pounds Sterling with conversion from Deutschmarks at the rate prevailing on the day of submission of the dividend coupon and will take place through the London offices of the following companies:

In accordance with the Double Taxation Agreement of November 26, 1964, as amended on March 23, 1970, between the United Kingdom and the Federal Republic of Germany, the withholding tax plus the mentioned surcharge in respect of shareholders resident in the United Kingdom is reduced to 15%. To claim this reduction, shareholders must submit an application for reimbursement before December 31, 2002 to the Bundesamt für Finanzen, D-53221 Bonn.

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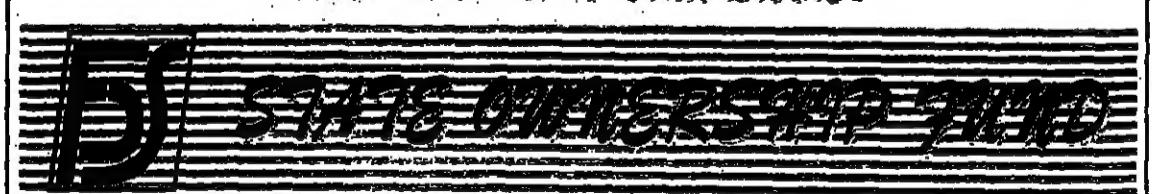
The Board of Executive Directors BASF Aktiengesellschaft

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Advertising release for sale of shares by direct negotiation

The STATE OWNERSHIP FUND, a Romanian public institution based in Bucharest, 6 Stavropoleos Street, sector 3, is offering for sale by direct negotiation according to the Government Order no. 58/1997 and the Government Decision no. 53/1998 published in the Official Gazette no. 66/12.02.1998 a 77.125% of the issued share capital of ABROM S.A. Company, Bârlad.

- Registered Office: Bârlad, Str. Grigore I. Ionescu nr.3, jud. Vaslui.
- Fiscal Code: R2808097
- Registration no. at Commercial Register Office: 137/21/1991
- Issued share capital, according to the latest records at the Commercial Register Office: 16,275,600 thousand ROL.
- Turnover in 1997: 17,526,320 thousand ROL.
- Net profit in 1997: 48,447 thousand ROL.
- Main scope of activity: production and trading abrasive parts, carbonaceous products and thermosetting refractory products.

Total number of shares at a nominal value of 25,000 ROL each: 651,024. The share ownership structure is as follows:

State Ownership Fund	77.125%
Share owners through mass privatization	22.875%
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The offer price for the 77.125% issued share capital, i.e. 502,322 shares is 3,952,924 USD.

The Company PRESENTATION FILE required for subscription to the offer may be obtained at the State Ownership Fund, BUSINESS CENTRE, OFFERS DIVISION of the International Relations Department, Bucharest, 6 Stavropoleos Street, sector 3, phone 041/5110495; 3123130; 3124231 and fax 041/3121841, daily between 8.00 and 16.00 hrs, at a price of 1,000 USD for foreign citizens or legal entities or ROL equivalent at National Bank exchange rate applicable on the PRESENTATION FILE purchase date for Romanian citizens and legal entities.

This sum has to be transferred in advance to the State Ownership Fund accounts: no. 2511.0000000024.3.000006 in USD at the Romanian Bank for Foreign Trade (BANCOEX) for foreign investors, or no. 2511.0000000024.3.000006 in ROL at the Romanian Bank for Development (BRD-SMB) for Romanian investors.

The minimal environmental conditions accepted for ABROM S.A. Company, Bârlad are included in the company PRESENTATION FILE.

THE PRESENTATION FILE will be released on presentation of:
☐ a copy of the payment order for the presentation file;
☐ identity card (or passport for foreign citizens);
☐ certificate from the bidding company.

In order to participate in the negotiations, bidders are required to present evidence of putting at the Seller's disposal a guarantee of a participation fee of 502,322 thousand ROL or 118,388 USD as follows: Romanian citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511.0000000024.3.000006 in ROL at the Romanian Bank for Development (BRD-SMB); foreign citizens or legal entities may pay cash to the State Ownership Fund, to account no. 2511.0000000024.3.000006 in USD at the Romanian Bank for Foreign Trade (BANCOEX); alternatively the bidders may instruct the bank where they hold their account to release an unconditional bank guarantee valid for 60 days.

Bidders that prove they acquired the Presentation File may submit their PURCHASING OFFER.

Bidders should submit the PURCHASING OFFER and the documents stipulated by the Government Decision no. 53/1998, article 27, published in the Official Gazette no. 66/12.02.1998 to the State Ownership Fund, Offers Division at the above mentioned address, in a sealed envelope, prior to 2nd of June 1998, 16th hrs. local time (from deadline for submission).

Low prices hit big Kazakh oil project

By Robert Corzine in Almaty

Shareholders in Kazakhstan's giant Tengiz oil field will have to stump up more cash because low world crude prices have undermined plans to self-finance the ambitious expansion of the country's premier economic project.

Managers at Tengizchevroil (TCO), the Chevron-led operating company overseeing the \$20bn development along the shores of the Caspian Sea in western Kazakhstan, confirmed yesterday that current revenues were no longer able to cover

planned spending this year, which includes \$500m for capital projects and \$200m for operating expenses.

Ken Godard, Tengiz's general director, said he had warned shareholders - Chevron and Mobil of the US, the Kazakh government and LukArco, a Russian-American joint venture - that the alternative to a "cash call" was to slow the pace of expansion. "They told me to go ahead as planned," he said.

TCO managers declined to say how much money they had asked for, but they confirmed that spending over

the next few months would be particularly heavy as contractors took advantage of summer weather to undertake maintenance and construction projects at the field, where more than 10,000 workers are employed.

Tengiz is one of the 10 biggest oil fields in the world and its development is the centrepiece of Kazakhstan's ambition to become a leading petroleum exporter by the end of the next decade. TCO executives said they were confident that all shareholders would respond positively to the cash call, which would be

reviewed each month.

But there is uncertainty whether the Kazakh government, which is struggling to meet pension and state wage payments, will be able to meet its 25 per cent share of the Tengiz costs should low oil prices persist.

Last year, relatively high oil prices enabled TCO to return surplus cash to shareholders. Tengiz's total "economic contribution" to Kazakhstan last year was about \$210m in wages, social spending, rail and pipeline tariffs, the distribution of surplus cash and royalties and taxes. TCO forecasts

suggest the total return this year will fall to about \$170m with direct payments to the government, such as royalties and taxes, hit hardest because of low world prices. The need for the state to inject funds directly into TCO threaten to erode that figure further.

Rising production, which last week reached a record 200,000 barrels a day, has only partially offset low crude prices. Although operating expenses have fallen from more than \$17 a barrel in 1996 to just over \$8 a barrel, transport costs can be more than \$8 a barrel

because TCO has only limited access to pipelines through neighbouring Russia, while the planned CPC pipeline linking the field directly to the Black Sea will not be ready until 2000.

"What Tengiz really needs is a pipeline and higher oil prices," according to Guy Hollingsworth, head of operations. He noted that Tengiz had been largely self-financing over the past three years. But oil prices, which have averaged about \$14 this year, would need to rise to \$20 to ensure that Tengiz's planned expansion could be internally funded.

Africa has a rare opportunity to prosper, but will it squander it?

After decades of stagnation, there is a chance to rejoin the world economy. Victor Mallet reports on southern Africa's economic summit.

There were more than a few cynical groans from the assembled chief executives, politicians and economists when Michael Jackson, wearing bright red lipstick, made a surprise appearance at this week's southern Africa economic summit in Namibia and told them to take better care of "the children of the universe".

But his audience of 800 greying senior managers could no more find fault with his bland message than they could disagree with the exhortations by other speakers for further political and economic reform in Africa.

The theme of the summit, organised by the Switzerland-based World Economic Forum, was the need for southern Africa to compete in the world economy after decades of war, stagnation and decline.

Delegates were told that Americans, from President Bill Clinton down, were finally interested in Africa. The continent should make the most of the world's attention to attract investment. Southern African leaders should consolidate democracy, embrace high technology, integrate their

economies to give the region more clout, and above all continue economic reforms that had already produced higher growth.

"Despite all the misgivings we may have about going global, it has ceased to be a matter of choice," said Kaire Mbenwe, executive secretary of the 14-nation Southern African Development Community. "Going global is a matter of survival."

African presidents and ministers from South Africa to Zambia made all the right noises, embracing "openness", "transparency" and "efficient governance". There was barely a whiff of the inward-looking nationalism or the Marxist-Leninist rhetoric that brought many of them to power.

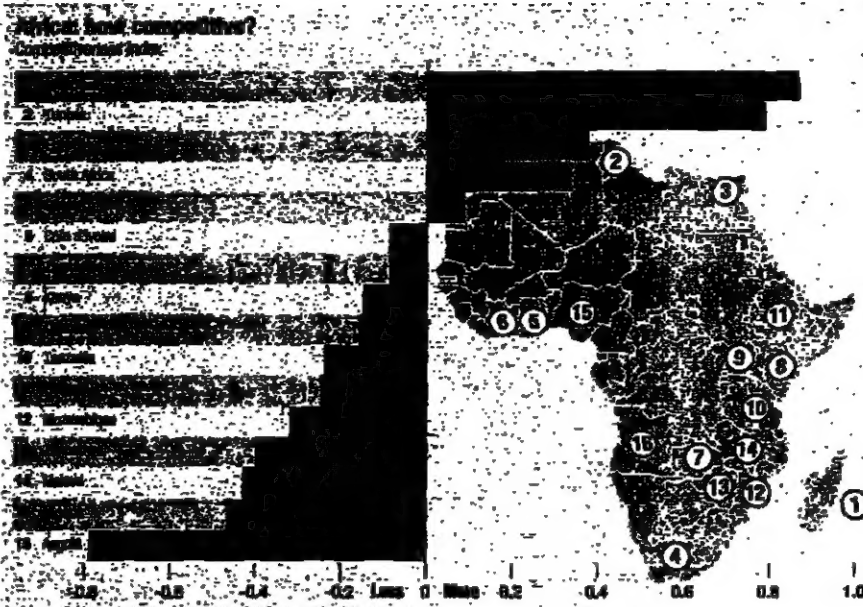
It took the boyish-looking but combative economist Jeffrey Sachs, director of the Harvard Institute for International Development, to deliver the bad news. "The situation is promising but at the same time dire," he said. "Reforms are too slow. They are too grudging on the one hand and they are receiving insufficient support when they do occur on the other."

Mr Sachs is famous for his

scorn of the International Monetary Fund and the World Bank. He earned applause this week for likening the adoption of their failed African structural adjustment plans to "being in the dentist's chair for 10 years", and he noted that they had failed to release the continent from debt or from its dependence on commodity exports.

But Mr Sachs also put his finger on the weakness that could yet detail a recovery already being hailed as "an African renaissance": many African leaders paid lip service to reform and free markets because they wanted to attract international investment, not because they really believed in free-market principles.

The theme was taken up in the two days of private meetings. Business executives complained that some African investment promotion agencies allowed proposals to gather dust for months before considering them. It was true that investment returns in Africa were high, but the "hassle factor" of bureaucracy and corruption sometimes made them long for Latin America



or eastern Europe.

African states such as Malawi spoke about openness but then made it extraordinarily difficult for foreign investors to obtain work permits for expatriate staff. Zambia was stalling on the privatisation of its loss-making copper mines. Zimbabwe under Robert Mugabe was corrupt, undemocratic and wavering in its commitment to economic restructuring.

Only President Joaquim Chissano of Mozambique won unanimous praise for his consistent approach to reform; the economy is expected to grow by nearly 10 per cent this year.

But while presidents and economists, including Mr Sachs, called for the cancellation of onerous foreign debts, there was disagreement about whether African governments should be required to commit themselves to further reform in exchange for debt write-offs.

"I'm a little perturbed about the populist groundswell that some of the politicians raised," said Nico Ceylanaka, group economist of South Africa's Standard Bank, pointing out that some of them had arrived in expensive private jets with large entourages. Governments might be right to ask for debt forgiveness, he said,

but they needed "to make absolutely sure that the negative and squandering actions of the past are not going to be repeated in the future".

Almost everyone at the summit agreed on two things: that Africa had a rare opportunity to prosper, and that its leaders needed to take immediate action to entrench reform if they were not to lose that opportunity. "The solution to this problem must come overwhelmingly from within Africa," said Mr Sachs. It is a message, critics might say, that Africa has heard, and ignored, several times before.

NEWS DIGEST

BORDER DISPUTE

Ethiopia warns of danger of all-out war with Eritrea

Ethiopia said yesterday its border row with Eritrea could develop into a full-scale conflict and urged the international community to pressure Asmara into quitting its territory. In a statement issued after a meeting with foreign diplomats in Addis Ababa, Seyoum Mesfin, foreign minister, said Ethiopia's patience had been stretched to the limit and warned "necessary measures" would be taken.

"In case we go into full-scale conflict, due to Eritrea's failure to heed Ethiopia's call for unconditional withdrawal of its troops, Ethiopia would like the international community to appreciate how we handled the conflict imposed on us," Seyoum said.

Ethiopia and Eritrea have disagreed peacefully over their lengthy border since 1993 but the spat turned violent this month with both sides accusing the other of invading the other. Eritrea admits its army engaged Ethiopian forces on May 6 but insists it has merely retaken land which its neighbour grabbed six months earlier. Reuters, Addis Ababa

CANCER DRUG TRIALS

Encouraging results for Taxol

Taxol, the cancer drug manufactured by Bristol-Myers Squibb from yew tree needles and twigs, significantly increases survival when used in chemotherapy for ovarian cancer, according to clinical trial results released last night. The American Society of Clinical Oncology meeting in Los Angeles heard that a drug combination including Taxol increased average survival from 25 months to 35 months when used instead of standard chemotherapy.

Data from the trial, which involved 680 women in Europe and Canada, will increase pressure on European doctors to prescribe Taxol. Many have been reluctant because they did not feel the drug's benefits justified its cost - about £7,500 (\$12,525) per patient in the UK. Olive Cookson, London

ISRAELI TORTURE

Shin Bet methods criticised

Israel's security service, Shin Bet, tortures at least 850 Palestinians a year, according to a report published yesterday by B'Tselem, the independent Israeli human rights centre for Human Rights in the Occupied Territories. But Ami Ayalon, Shin Bet chief, in a recent affidavit to the High Court, claimed "irregular methods of interrogation thwart terrorist attacks".

Based on evidence from former detainees, B'Tselem said prisoners were held in isolation in cramped and filthy conditions, often for several months. Their interrogators used Shabeh, in which the detainee's hands and legs are shackled to a small chair angled to slant forward, while his head is covered with a sack and loud music is played non-stop.

Shin Bet has admitted to using Shabeh, as well as Gambia, or "frog position" in which the detainee is forced to squat on his toes with his arms tied behind him. If he falls, he is beaten or kicked. Shin Bet also uses violent shaking. The United Nations Committee against Torture this week criticised Israel for the use of torture.

An inquiry set up by Landau Commission in 1987 permitted Shin Bet to apply "moderate physical pressure, under certain circumstances. Judy Dempsey, Jerusalem



World leader in Environmental Services and one of the major European leaders in Communication and Construction, Vivendi employs 220,000 people in 90 countries. Its turnover is close to \$35bn and its net income is expected to exceed \$1.1bn in 1998. Vivendi's market capitalisation

is close to \$30bn (mid-1998). Vivendi is part of the DJ Euro Stoxx 50.

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WORLD TRADE

EXTRA-TERRITORIAL DISPUTE

France wary of sanctions agreement

By Neil Buckley in Brussels

France's finance minister, Dominique Strauss-Kahn, yesterday called the US-European Union agreement resolving the dispute over the US extra-territorial trade laws a "step forward" - but warned that France would remain vigilant on the issue.

Mr Strauss-Kahn distanced himself from earlier reported comments by French officials at Geneva's meeting of ministers at the World Trade Organisation which suggested the deal was unacceptable and that France would oppose it at a foreign ministers' meeting next week.

The deal on US sanctions laws on companies investing

'This is not the end of the story. But this is progress'

In Cuba, Iran and Libya was reached at Monday's EU-US summit after intensive last-minute negotiations. But it must be approved unanimously by EU ministers, while US President Bill Clinton must persuade Congress to amend sanctions laws to ensure European companies are not affected.

Speaking in Brussels, Mr Strauss-Kahn made clear France could live with the deal, though it was not completely happy with all its elements. He welcomed the US agreement to lift the threat of sanctions on Total, the French oil company which is involved in a \$2bn gas project in Iran. But he added this was essentially an "internal" US decision.

The French authorities have already considered, as has the EU itself, that American laws could not affect

companies from third countries, in line with international law.

He also welcomed the agreement in principle on protection of investments, but warned France would make sure the agreement would not make sure the agreement was followed, and that all extra-territorial or retroactive laws adopted by the US were blocked.

"There is not complete happiness; this is not the end of the story," said one French official. "But this is progress. We will not reject it."

The French finance minister also welcomed Monday's agreed text on strengthening EU-US trading links, stressing that it stopped well short of the "New Transatlantic Marketplace" (NTM) proposals adopted by the European Commission in March. France vehemently opposed those plans, blocking their discussion at the summit.

"France notes with satisfaction that the Commission's initial approach has been abandoned in favour of a gradual and pragmatic approach, based on a broad dialogue between businesses and civil society," Mr Strauss-Kahn said.

French officials are privately concerned that resolution of the dispute over extra-territorial laws could be seized on by Sir Leon Brittan, EU trade commissioner, as a chance to relaunch his NTM initiative.

They fear sensitive subjects such as agriculture and audiovisual services could not be kept out of such talks - despite assurances to the contrary from the European Commission.

Mr Strauss-Kahn insisted that the NTM's central element - a transatlantic free trade area in services and removal of industrial tariffs - had been "abandoned", with priority given to multilateral rather than bilateral trade negotiations.

MILLENNIUM ROUND EU TRADE COMMISSIONER ENCOURAGED BY APPARENT US SHIFT OF POSITION

Brittan welcomes Clinton trade talks call

By Francis Williams and Guy de Jongh in Geneva

President Clinton's call for the launch of new global trade talks in the US next year, and for the World Trade Organisation to be more sensitive to environmental, social and consumer concerns, met a mixed reaction yesterday from other WTO members and environmental and labour groups.

Sir Leon Brittan, European trade commissioner, who first launched the campaign for a millennium round of trade negotiations, said he was encouraged by the apparent shift in the US position.

"I regard this as a step forward. It is a substantial step towards US commitment to a round," Sir Leon said.

The US has previously favoured sectoral negotiations and has shied away from a comprehensive round, fearing that could force negotiations in all areas to move at the pace of the slowest - most likely to

be agriculture which is a sensitive issue for Europe and Japan.

President Clinton, in his speech on Monday to the WTO, said governments needed to consider new ways of negotiating. "We should explore whether there is a way to tear down barriers without waiting for every issue in every sector to be resolved before any issue in any sector is resolved," he said.

Charles Barshefsky, US trade representative, said

yesterday that the US had neither endorsed a comprehensive trade round nor sector-by-sector negotiations but wanted all options examined before ministers meet late next year in the US.

The Uruguay Round agreements require negotiations to start on agriculture and services by the year 2000 but many western governments want other subjects added to the agenda including industrial tariffs, intellectual property, investment and competition policy.

President Clinton's proposals on making the WTO more open to environmental, labour and consumer views, echoed yesterday by President Nelson Mandela of South Africa and Britain's prime minister Tony Blair, were welcomed enthusiastically by trade union groups.

Tim Fischer, Australia's trade minister, said the WTO system could be derailed by the addition of too many non-trade issues. Indian diplomats said trade ministers had already rejected a trade

labour link at their last meeting in Singapore in 1996 and the subject was closed.

On the environment the WWF-Worldwide Fund for Nature praised Mr Clinton's initiative, especially for more transparency in the dispute settlement process.

But US environmental leaders said results, not rhetoric, would determine whether the Clinton administration would secure the fast-track negotiating authority it is expected to seek next year.



In a speech to the WTO yesterday, President Fidel Castro of Cuba angrily condemned an agreement between the US and European Union aimed at ending their dispute over the US Helms-Burton law against Cuba. Reuters

Pact on electronic commerce

By Guy de Jongh

Members of the World Trade Organisation last night agreed not to impose customs duties on international electronic transactions and to establish a comprehensive work programme to recommend how they should deal with the development of electronic commerce on the internet.

Governments backed a draft declaration calling for a study of "all trade-related issues relating to global electronic commerce" to be completed in time for the WTO's next ministerial meeting late next year.

The US, with European Union support, has been pressing other WTO members hard to commit themselves to keeping electronic transactions duty-free, and for action to set guidelines for the development of electronic commerce. However, they initially faced indifference or resistance from many developing countries.

The US doubted until recently whether all the WTO's 123 members would be prepared to go along with the proposals, and suggested that approval should be sought only from a small group.

However, developing countries appear to have been satisfied by assurances in the draft that the planned study would take into account their special economic, financial and development needs, and that any decision on the work programme beyond the next ministerial meeting would be taken by consensus.

EU officials claimed last night that the wording of the declaration meant that it would cover issues such as data protection and privacy, as Brussels wants.

But the US, which believes these matters should not be subject to government regulation, has been keen to have them excluded from the study.

On Monday, nine developing countries led by Pakistan and India blocked quick agreement on a modified US proposal in spite of a call from President Bill Clinton for support.

"We cannot allow discriminatory barriers to stunt the development of the most promising new economic opportunity in decades," Mr Clinton told the WTO gathering on Monday.

International efforts to improve protection of the environment and uphold core labour standards must not lead to trade barriers against developing countries' exports, Tony Blair, Britain's prime minister, said yesterday.

He told a ministerial meeting of the World Trade Organisation in Geneva that protecting the environment was "perhaps the major challenge we face as we head towards the next century", and should be reflected in all government policies, including trade.

But "trade rules should not be used to impose unfair standards on developing countries, nor to discriminate against their exports." Efforts to promote labour standards should centre on the International Labour Organisation and should not become a barrier to trade.

The trend towards free trade had become irreversible, and the biggest task facing the WTO was to ensure its benefits were widely shared.

Mr Blair urged WTO members to reduce to zero tariffs on exports from developing

countries. The UK was setting aside \$10m to help the poorest countries adjust to integration with the global economy, he added.

Economic and social changes caused by technology and globalisation left many people feeling powerless and insecure. The choice lay between resisting change, or acting together to ensure people were equipped

to handle it effectively. "Resistance is easy to demand, but won't work, and will spoil the good globalisation can bring."

"Laissez-faire will leave us divided and bitter. Working together to maximise the good and minimise the bad is the only realistic option."

Governments must resist protectionist pressures and extend trade liberalisation, but not at any cost. They must also maximise benefits of electronic commerce.

TARIFFS CALL FOR REDUCTION

Blair in trade plea for third world nations

By Guy de Jongh

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Nervous system drugs top sales

By Jenny Leesby in London

The growth in worldwide sales of central nervous system drugs, mainly antidepressants, outstripped all other types of prescription drugs in the year to February 1998. Sales climbed by 13 per cent.

Driven by sharp rises in the US, UK, Spain and Mexico, sales of these brain-affecting drugs grew by \$2bn compared with a year earlier to \$25.5bn in the world's 13 largest drug markets.

Meanwhile, the overall value of prescription drug sales in these 13 countries grew by 6 per cent to \$178.1bn, according to figures published today by IMS Health, the healthcare information company. In the world's largest therapeutic categories, cardiovascular and alimentary drugs, sales rose by 7 per cent and 4 per cent to \$35.4bn and \$29.2bn.

Regionally, the growth of prescription sales remained constant at 11 per cent in the world's most important drug market, the US. However, in Europe, growth accelerated in Germany, the region's largest drug market, and in Spain.

World retail pharmacy purchases 12 months to February 1998

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Australia	Mexico	Rest of World
Cardiovascular	12,708	7,465	3,828	3,884	1,882	1,718	1,008	1,108	1,014	488	228
Alimentary/Intestine	10,608	5,817	2,821	2,881	1,281	1,181	631	718	631	318	148
Central Nervous System	12,094	2,833	1,743	1,883	883	1,283	683	728	711	483	283
Anti-infectives	8,882	4,832	1,282	1,282	1,282	682	772	618	518	402	172
Respiratory	5,884	2,832	1,282	1,218	682	1,238	728	618	582	282	122
Genito-urinary	4,343	842	677	772	424	424	584	188	224	181	121
Musculo-skeletal	2,382	2,838	888	882	477	482	587	247	178	228	77
Others	10,128	13,608	2,828	1,778	1,288	1,188	788	888	884	382	482
Total	68,012	48,088	14,882	12,418	6,488	7,782	6,827	4,884	4,346	2,882	1,282
% Change	11	2	3	2	4	7	3	11	12	4	28

Source: IMS Health

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In Germany, the annual rate of growth climbed from 3 per cent to 3 per cent between January and February, despite efforts to clamp down on healthcare budgets. Most of the growth came in

prescriptions for anti-infectives, mainly HIV products, and anti-depressants.

According to IMS, prescriptions in Germany have fallen by 6.4 per cent since 1992 in volume terms. However, in value terms they have increased by 10 per cent, with a significant proportion of the remaining prescriptions moving to more expensive products.

Moreover, despite the boost to over-the-counter drugs caused by the replacement of some prescribed

drugs with self-medication, Europe's OTC sector continues to suffer from severe overcapacity, says IMS.

Some 3,635 companies are producing OTC drugs in Europe, but just 238, or 6.5 per cent of them, account for 70 per cent of sales.

Since 1994, annual growth rates in the sector have declined each year. But the fall was particularly sharp last year, when a poor cough and cold market led to a decline of around \$70m in OTC sales in Europe.

Charles Barshefsky, US trade representative, had convened an immediate special review of Wellington's decision, said Josiah Beaman, US ambassador to New Zealand. Mr Beaman this week publicly condemned New Zealand's action and warned "severe consequences" of the move that would go "far beyond the New Zealand market".

New Zealand's decision is particularly sensitive for US car, pharmaceutical and CD manufacturers, which claim large market shares through exclusive marketing deals in the country.

However, Mr Beaman said the issue was not a bilateral matter. "Rather, it is a precedent-setting action by an OECD nation that could have an adverse impact on overall world trade," he said.

In a sharp response to US protests, Jenny Shipley, New Zealand prime minister, warned the US to stop interfering in New Zealand affairs. "We will not be told how to run our country."

Some domestic business groups have warned the move could trigger a flood of cheap imports and undermine investment and intellectual property rights in the country. But the government insisted that removing the ban would benefit consumers through lower prices and wider availability of goods, which are currently limited through exclusive franchise

networks. At the same time, the government would increase protection of copyright holders' rights through stiffer penalties for imports of pirated goods, said John Lutton, commerce minister.

Consumer groups, importers and retailers welcomed the move and the Manufacturers' Federation said the "advantages would outweigh the drawbacks" as manufacturers would be able to buy cheaper machinery and equipment.

The Australian government, which has been fighting a similar battle in parliament to remove parallel

imports, said the move would undermine confidence among foreign investors. "By legislating the substance out of import restrictions, the government has opened the market to every man and his dog to dump anything they want in New Zealand," said David Cumming, Chrysler Jeep's New Zealand general manager.

"In a wider context, the decision will lead people to question their investments in the country if people can sell anything they like off the back of a truck."

New Zealand-based car makers and importers have launched a campaign to protest against the government's decision, claiming the legislation would undermine intellectual property rights and remove manufacturers' rights to control the image of their brands in the marketplace.

The Australian government's proposed legislation has been blocked in parliament's upper house by opposition parties. The deadlock revolves around claims by the recording industry and artists that the removal of restrictions would flood Australia with counterfeit CDs.

The Australian government said New Zealand's move showed such claims were spurious, and provided



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US warns New Zealand over parallel imports

'Severe consequences' threatened and special review instituted after parliament votes to remove import restrictions

By Owen Robinson in Wellington

The US has threatened action against New Zealand for its abrupt move to remove restrictions on parallel imports - allowing importers to bring in brand-name goods without a franchise.

New Zealand has become the first country in the Organisation for Economic Co-operation and Development to open its market to parallel imports, after parliament voted at the weekend immediately to lift the ban.

The vote followed the government's announcement of the measure in the national budget late last week.

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MEETING AT INSEAD PRO-EU MEMBERS OF OPPOSITION PARTY REJECT MOST EUROSCPTIC SPEECH SINCE THATCHER ERA

Conservative leader heaps scorn on euro

By George Parker in Fontainebleau and Liam Halligan in London

William Hague, leader of the opposition Conservative party, yesterday re-ignited his party's long feud over Europe, when he delivered the most Eurosceptic speech by a leader of his party since Margaret Thatcher.

Mr Hague, speaking in Fontainebleau, France, warned against further European integration, claiming it could lead to the kind of violent, popular revolts

seen recently in Asia. He argued that the single currency could herald a political union, with tax and public spending decisions taken centrally in Brussels. "I fear the European Union is in danger - in danger of accepting without debate a political destination agreed 40 years ago," he said.

His speech to the INSEAD business school infuriated pro-European members of his party, who said it painted a bleak and false picture of an integrated Europe. Kenneth Clarke, who was

chancellor of the exchequer in John Major's government, accused his leader of becoming "over-excited about inevitable continental integration." If Conservatives could not unite over Europe, "we aren't going to win any elections, we aren't going to come back from opposition."

Michael Heseltine, formerly Mr Major's deputy prime minister, said Mr Hague had made "a speech without an audience, which will be greeted by others in Europe with an incredulous shrug of the shoulders."

Mr Hague, a former INSEAD student, insisted his generation had an obligation to map an alternative vision of Europe's future. He stressed the need to enlarge the EU to the east, without requiring new members to join the single currency or to become part of a deeper political union. "The nation state is not an outmoded concept, but is the best for true democracy," he said.

In the most striking section of his speech, Mr Hague claimed that a centralised EU would be undemocratic,

and could provoke a rise of the extreme right and popular unrest. "In Asia those countries that have had the most violent reactions to the financial crisis have been those countries that do not have the safety valve of democratic elections," he said. "How will the peoples of Europe react to a recession without the electoral means of changing the people responsible?"

Mr Hague has promised to fight the next election with a pledge not to take the UK into a single currency in the

lifetime of the parliament. But yesterday he said he could never take Britain into the euro if the single currency led to a centralised tax regime. He added: "The single currency is irreversible. One could find oneself trapped in the economic equivalent of a burning building with no exits."

Earlier Mr Hague met French president Jacques Chirac, with whom he had what aides described as "a robust exchange of views."

Editorial Comment, Page 13

Japan's image of UK puts gardens above technology

'Cool Britannia' still has to contend with dated perceptions, reports Bethan Hutton from Tokyo

When the Emperor of Japan visits London later this month, millions of Japanese will be deeply envious. Not because the emperor will be in the world's "coolest" city, with all the latest in food, fashion, and music at his feet, but because he may be allowed a privileged glimpse of Buckingham Palace gardens.

Britain has a very strong brand image in Japan, but one set firmly in the past. Just ask any taxi driver: London is a fog-bound city, little changed from the days of Sherlock Holmes; every English lady sits down daily to afternoon tea and scones on floral-patterned china; and English gentlemen invariably buy their suits from Savile Row.

These traditional perceptions can work to the UK's advantage. Export sales of Liberty and Laura Ashley goods, Fortnum and Mason teas and Rover's Mini would not have been so high without them. Britain also benefits from the coasts of Japanese tourists wanting to eat roast beef, drink tea and visit Beatrix Potter's cottage in the Lake District.

But recently there has been a growing feeling that perhaps Britain's image has relied too heavily on the traditional to the detriment of industries offering modern design and high technology products.

The rebranding of Britain was under way in Japan long before the Labour government launched its "Cool Britannia" initiative. Current efforts to promote Britain can be traced back to the last UK ambassador to Japan and the UK-Japan Interparliamentary group - all distinctly "old Britain" from the days of John Major. The Conservative prime minister whose government was ousted by Tony Blair's Labour party last year.

For the whole of this year, the Japanese are being bombarded with information and images of Britain as part of Festival UK98. Although the festival includes plenty of Victorian art, and the usual department store tea and teddy bear promotions, it also aims to promote Britain as a source of advanced science, technology and design. Centrepieces of the festival include a display of masterpieces from the Tate Gallery in London, an exhibition from the Science Museum, a British Lifestyle exhibition, fashion shows and science seminars.

But Japanese tastes do not always move in concert with



A Chelsea Pensioner - one of a special group of retired British army veterans - was one of the first of thousands of gardening enthusiasts at London's Chelsea Flower show. Thousands of visitors are expected every day this week at Britain's leading horticultural event.

publicity campaigns. While The Full Monty played to packed audiences, and Paul Smith suits are selling well, the hottest British export in Japan at the moment is traditional British gardening.

Stores are devoting whole floors to displays of seed packets, trowels and terra-cotta planters. Television programmes and magazine articles demonstrate how to reshape a few square metres of balcony in the style of an English cottage garden. A recent event at the British Embassy in Tokyo, when British gardening experts explained the finer points of

creating hanging baskets, drew crowds of people taking detailed notes. The British Tourist Authority last year published the UK's first guide to the UK showing popular film locations or sites associated with pop groups. But the one most in demand in Japan has been the guide to British country house gardens.

David Quarby, chairman of the British Tourist Authority, said on a recent visit to Japan that the idea of "old meets new" was the theme for the BTA in Japan. The BTA's office in Japan

has sponsored the publication of Channel London, a magazine aimed at teens and twenties, which shows the bits of the capital and its lifestyle that most Japanese tour groups never see. Virgin Atlantic, with its younger, cooler image, carries planeloads of young Japanese to London.

The concern in some quarters is that if Britain tries too hard to push a modern image, admirers of traditional Britain could be put off. Already, word is spreading in Japan that some of the gardens of New Zealand are just as charming.

Tony Blair issues trade plea for N Ireland

By John Harvey Brown and David Wighton

Tony Blair, the UK prime minister, last night urged world leaders to support the settlement in Northern Ireland by increasing the flow of investment into the region.

As the tempo stepped up ahead of Friday's referendum in both parts of Ireland on the multi-party agreement, Mr Blair used the opportunity of the world trade summit in Geneva to underline the case for a Yes vote. "This prospect may not in itself be a reason for voting Yes. The issues at stake are different. But it is a simple fact that more investment is likely to follow a Yes vote."

Mr Blair, who will today travel to Belfast, the region's principal city, for what will be his third visit in as many weeks, had earlier pledged to clamp down strongly on fringe paramilitaries. "The Irish Government and ourselves will be in a far stronger position to take far tougher measures because people will have spoken," he said.

"My view is that if we get this agreement endorsed in the referendum... those splinter groups will find it very very difficult to operate indeed," he said.

Meanwhile in Belfast last night, David Trimble, leader of the Ulster Unionists, the largest pro-British party, shared the stage with John Hume, leader of the moderate nationalist Social Democratic and Labour party, at a special rock concert.

Mr Blair is expected to travel to Belfast today with William Hague, leader of the opposition Conservative party, following the visit yesterday of Paddy Ashdown, the leader of the UK's pro-European Liberal Democrat party.

Downing Street said there was little sign of "don't knows" going over to the No camp. "The No campaign doesn't have momentum," said the prime minister's official spokesman.

Mr Trimble said the "Yes" camp had had "our wobbly patch" over the last few days and the goal is "in sight". He welcomed the decision of Jeffrey Donaldson, one of his 10 MPs, to support the party during the election campaign for the assembly - even though Mr Donaldson says he will vote against the deal in the referendum.

Mr Donaldson insisted that his rejection of the deal was not an attempt to oust Mr Trimble. "It is not about personal ambition," he said.

Peace deal, Page 13

Inflation rises to 4% for first time in six years

By Robert Davis, Economics Editor

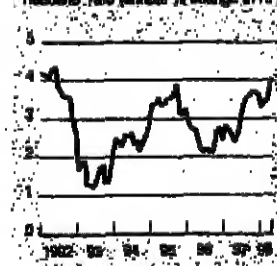
Inflation hit 4 per cent for the first time for almost six years last month, threatening further upward pressure on pay settlements.

The decision in the Budget in March to cut tax relief on mortgage interest payments and bring forward increases in fuel duties pushed inflation up by half a percentage point in April. But excluding indirect taxes and mortgage interest payments, inflation rose only from 2.1 to 2.2 per cent.

Separate figures showed that the government spent £3.4bn (56.8bn) less than it raised in taxes last month, in part because of income tax on big bonuses. The debt repayment underlined the recent sharp improvement in the public finances, but also suggested that economic activity may be more robust than other official statistics imply.

Underlying inflation -

UK inflation



which excludes only mortgage interest payments - rose from 2.6 to 3 per cent in April, taking it further above the government's 2.5 per cent target. The Treasury said the increase was in line with the Budget forecast and that the tax effect would begin to unwind in July.

Financial markets concluded that the figures made another rise in interest rates slightly more likely. The tax increases are supposed to squeeze domestic spending and reduce inflationary pres-

sure. But they could add to inflation if employees secure bigger pay rises to compensate and employers pass the cost on to their customers.

"I don't want another bout of wage inflation in the UK and I think everyone has responsibilities to play in this respect," Gordon Brown, chancellor of the exchequer, said. "Nobody is going to be complacent about inflation." Employees would have needed a 4.1 per cent pay increase in the year to April to protect their living standards against higher taxes and prices, compared with only 2.6 per cent in the year to March. The Bank of England, the UK central bank, fears that companies might accede to big pay demands, because of the tight labour market.

Marks & Spencer, the retailer, announced yesterday that it would spend £90m giving its staff pay rises of between 4 and 5.25 per cent, plus another £50m in profit-related bonuses.

By David Wighton, Political Correspondent

The government was attacked yesterday over its competition bill, and the opposition Conservative party is to propose an amendment that would give automatic protection to all existing agreements.

Ian McCartney, the industry minister, was challenged to say whether the competition bill would outlaw newspaper industry agreements such as recommended cover prices and sale-or-return arrangements. He refused to say whether the industry would be affected by its proposed crackdown on anti-competitive practices.

John Redwood, the Conservative party's shadow industry secretary, said business needed to know which agreements would be illegal because under the proposed legislation companies could face large retrospective fines for behaviour deemed anti-competitive. He said that

while the Monopolies and Mergers Commission had cleared the newspaper industry agreements in 1993 there was no guarantee they would be allowed under the new legislation.

The government said it was up to the director general of fair trading and not ministers to make such decisions. Officials pointed out that the director general was consulting on transitional arrangements for existing agreements.

Mr Redwood said business was only now waking up to the implications of the bill, which was initially given a broad welcome by the Confederation of British Industry.

The Newspaper Publishers Association, which represents the national titles, is broadly supportive of the bill but has a number of specific worries, including a threat to advertising self-regulation. The CBI has recently called for a number of amendments to the bill.

There is also a chance that Harriet Harman, the social security secretary, will be ousted by Alistair Darling, the Treasury chief secretary - although finding the right replacement for him at a crucial juncture in the government's long term re-ordering of public spending priorities would be difficult. The creation of a cabinet post for Ms Harman, of wom-

en's issues minister, is also an outside possibility - but an adviser to Mr Blair said he was against this.

The prime minister may wish to make good his pre-election promise to upgrade the employment portfolio to a cabinet job, thereby signalling that the education and employment department is one of his top-ranking ministries.

This position could be filled by the current incumbent, Andrew Smith, or by Ian McCartney, the trade and industry minister, or even by Ms Harman. "Smith and McCartney are the two unsung heroes of the junior ranks," said one of their senior supporters. "They are never mentioned as cabinet material but I would not rule them out."

After a year in power, Blair prepares to reshuffle ministers

Main aim of premier's overhaul is to give cabinet rank to one of his most influential colleagues, Robert Peston writes

There has been reshuffle fever almost from the moment the government was elected just over a year ago. Obsession among parliamentarians and among the media with Tony Blair's first ministerial overhaul is possibly excessive because few cabinet members have been disastrous performers and the number of senior casualties will be limited.

It should, however, be significant at the level of junior ministers. "What you will be able to see is who will make it into the cabinet in two years' time and who will be at the forefront of the next general election campaign,"

said a senior minister. There could also be a modest structural reform because the employment portfolio may be given cabinet status to replace transport. The prime minister has been on the verge of reconfiguring his team twice: in November 1997 and April 1998. A minister said there was "a chance" that it would now take place next week, although July was "a more likely date".

The catalyst of the speculation is the "Mandelson anomaly" or the supposedly unsustainable position of Peter Mandelson, the government's ambitious and

influential minister without portfolio. Mr Mandelson is one of the three or four most influential members of the government, but - having served only a brief front-bench apprenticeship in opposition - he was left out of Tony Blair's first cabinet.

So the primary purpose of an imminent shuffle would be to give Mr Mandelson the cabinet rank to match his powerful role as co-ordinator of policy.

Mr Mandelson's elevation will probably be achieved by making him chancellor of the Duchy of Lancaster. As titular head of a reformed Cabinet Office he would have an enhanced licence to forge common purpose for competing ministerial departments. The current chancellor of the Duchy,

David Clark, has been braced for backbench exile for some time. "Many of us think it unfair, but really the last rites have already been said over David," said one of his friends.

A second member of the ministerial living dead is Gavin Strang, the cabinet-ranked transport secretary who was an agriculture minister in the Labour governments of the 1970s. "Gavin has fallen out with his boss [John Prescott, deputy prime minister and chief transport minister]," said a government member. "I can't see him surviving that."

Mr Strang's departure would also lead to the transport post dropping to non-cabinet status - and the downgraded job may be filled by Brian Wilson, the

abrasive junior Scottish minister.

In this game of tumbling dominoes, Helen Liddell, economic secretary to the Treasury and the minister at the forefront of clearing up the pensions mis-selling affair, would move to replace Mr Wilson in Scotland as probable apprentice minister for Scotland next year.

There is also a chance that Harriet Harman, the social security secretary, will be ousted by Alistair Darling, the Treasury chief secretary - although finding the right replacement for him at a crucial juncture in the government's long term re-ordering of public spending priorities would be difficult. The creation of a cabinet post for Ms Harman, of wom-

NEWS DIGEST

INWARD INVESTMENT

US healthcare offshoot to open \$50m factory

MediSense, a subsidiary of US healthcare group Abbott Laboratories, is to open a £30m (\$50m) factory near Witney, 100km west of London. The project will be south-east England's biggest inward investment since Pfizer announced plans for a research facility in Kent, to the east of London, last December.

MediSense, which already has a plant at Abingdon, about 25km from Witney, makes biosensors for systems that allow people with diabetes to monitor their blood glucose levels.

The new plant will allow it to meet demand in the \$2bn world glucose testing market which is growing by 15 per cent a year. A £500,000 investment by English Partnerships, the government's regeneration agency, to provide water and electricity services and access roads at the site, clinched the deal in the face of competition from the Republic of Ireland. MediSense, based in Massachusetts, was acquired by Abbott two years ago. Brian Groom, London

PROGRAMMING FEES

Broadcaster to be paid \$6.7m

British Sky Broadcasting, the satellite broadcaster, yesterday scored a victory over Carlton Communications in the High Court in London. A judge ruled against Carlton for withholding a programming fee and ordered the company to pay BSkyB more than £4m (\$6.7m). When BSkyB was forced out of British Digital Broadcasting, a pay-TV group, Carlton and Granada Group, co-owners of BSkyB, agreed to pay £60m for BSkyB programming. Although Granada paid its share of the fee, Carlton at first withheld the full £30m payment.

Last month, Carlton sent BSkyB a cheque for £25.5m plus value-added tax, but refused to pay the rest. The company argued that it would not pay the remainder because the regulator had prevented BSkyB taking extra channels from BSkyB. However, a judge yesterday overturned Carlton's case and did not grant leave to appeal. A Carlton executive said: "There was a genuine problem with interpreting this complicated matter, which is why it went to court."

BSkyB announced yesterday that Canal Plus, the French pay-TV group, would manage its interactive applications. BDB selected Canal Plus' Mediaweb technology. The company has already chosen a conditional access system, needed to unscramble digital signals, from Seca, a joint venture between Canal Plus and Bertelsmann. Cathy Newman, London

TRADE UNION RECOGNITION

Split by leaders likely

A split is expected at today's meeting of senior trade union leaders at the Trades Union Congress over the government's plan to introduce trade union recognition with an instance on a requirement that 40 per cent of employees in an agreed bargaining unit must support it. The proposal will be in a government policy paper expected tomorrow.

Ken Jackson, general secretary of the AEEU engineering workers' union, intends to urge support for the government. However, the general secretaries of Britain's three largest unions have expressed their opposition to the 40 per cent threshold and announced they intend to campaign within the TUC against the move. Bill Morris, general secretary of the TGWU general union has denounced the proposal as "unworkable". John Edmonds, the GMB union's general secretary, has also voiced his anger at the 40 per cent threshold. Rodney Bickerstaffe, general secretary of Unison, said he disliked the government proposal.

John Monks, the TUC general secretary, will attempt to reconcile his colleagues. Although accepting the 40 per cent threshold is much too high to ensure trade unions can secure widespread recognition agreements, he believes that the government's package goes a long way to meet TUC concerns about workplace fairness. Robert Taylor, London

ELECTRICITY INDUSTRY

Regulator backs complaints

Customer complaints that power generators have used their market power to maintain higher electricity prices appeared to be supported yesterday by the industry regulator.

Peter Carter, deputy director-general of the Office regulatory unit, said the fossil-fuel generators had chosen to maintain wholesale prices at the expense of losing market share to independent gas-fired stations and nuclear power.

Mr Carter told a conference organised by the Confederation of UK Coal Producers: "It would have been possible for coal-fired generators to bid into the pool [the wholesale market] and offer contracts at prices which made entry by new gas operators less attractive. They did not do so. They may have calculated that it was more profitable for them to maintain prices than to compete more aggressively for market share."

Electricity customers complain that the largest coal and gas burning generators, National Power, PowerGen and Eastern Group, have used their market power to prevent deeper electricity price cuts. Andrew Taylor, London

CONTRACTS & TENDERS

INVITATION FOR BIDS FOR THE SUPPLY OF EQUIPMENT

IFB No: T31-4CB-03

1. The Government of Republic of Turkey has received a loan (Loan No.3541A-TU) from the International Bank for Reconstruction and Development (IBRD) in various currencies towards the cost of Employment & Training Project. It is intended that part of the proceeds of this loan will be applied to eligible payments under the contract for supply of equipment.

2. The Turkish Employment Organisation now invites sealed bids from eligible bidders for the supply of:

1) 35 Photocopy Machines	5) 164 File Cabinets
2) 81 Fax Machines	6) 400 Steel Shelves
3) 33 Overhead Projectors	7) 33 White Boards
4) 140 Electronic Calculators	8) 91 Steel Libraries

3. Interested eligible bidders may obtain further information from and inspect the bidding documents at the office of:

General Directorate of the Turkish Employment Organisation
(Is ve İcra Bülteni Kurumu Genel Müdürlüğü)
Employment & Training Project, Project Co-ordination Unit,
Atatürk Bulvarı No. 133, Kat 7, 06640 Bakanlıklar/Ankara
Tel: (312) 425 70 84 Fax: (312) 418 17 32

4. A complete set of bidding documents may be purchased on the submission of a written application to the above address and upon payment of a non-refundable fee of US\$50 or equivalent Turkish Lira. The fee will be paid to Ziraat Bankası Ankara Biresel Bankacılık Şubesi (Şube kodu 1133, Atatürk Bulvarı No:111, Bakanlıklar 06640-Ankara, Tel: (312) 418 07 74, Fax: (312) 425 37 86) Is ve İcra Bülteni Kurumu Account No. 302359. The original receipt for this payment will be presented to the Project Co-ordination Unit when the bidding documents are collected.

5. The provisions in the Instructions to Bidders and in the General Conditions of Contract are the provisions of the World Bank Standard Bidding Documents: Procurement of Goods.

6. Bids must be delivered to the above office on or before 12:00 hours on 6 July 1998 and must be accompanied by a security of 2% amount in the currency of the bid or in another freely convertible currency in the form of a bank guarantee or an irrevocable letter of credit issued by a reputable bank located in the purchaser's country or abroad.

7. Bids will be opened in the presence of bidders' representatives who choose to attend at 14:00 hours on 06 July 1998 at the above address.

MC

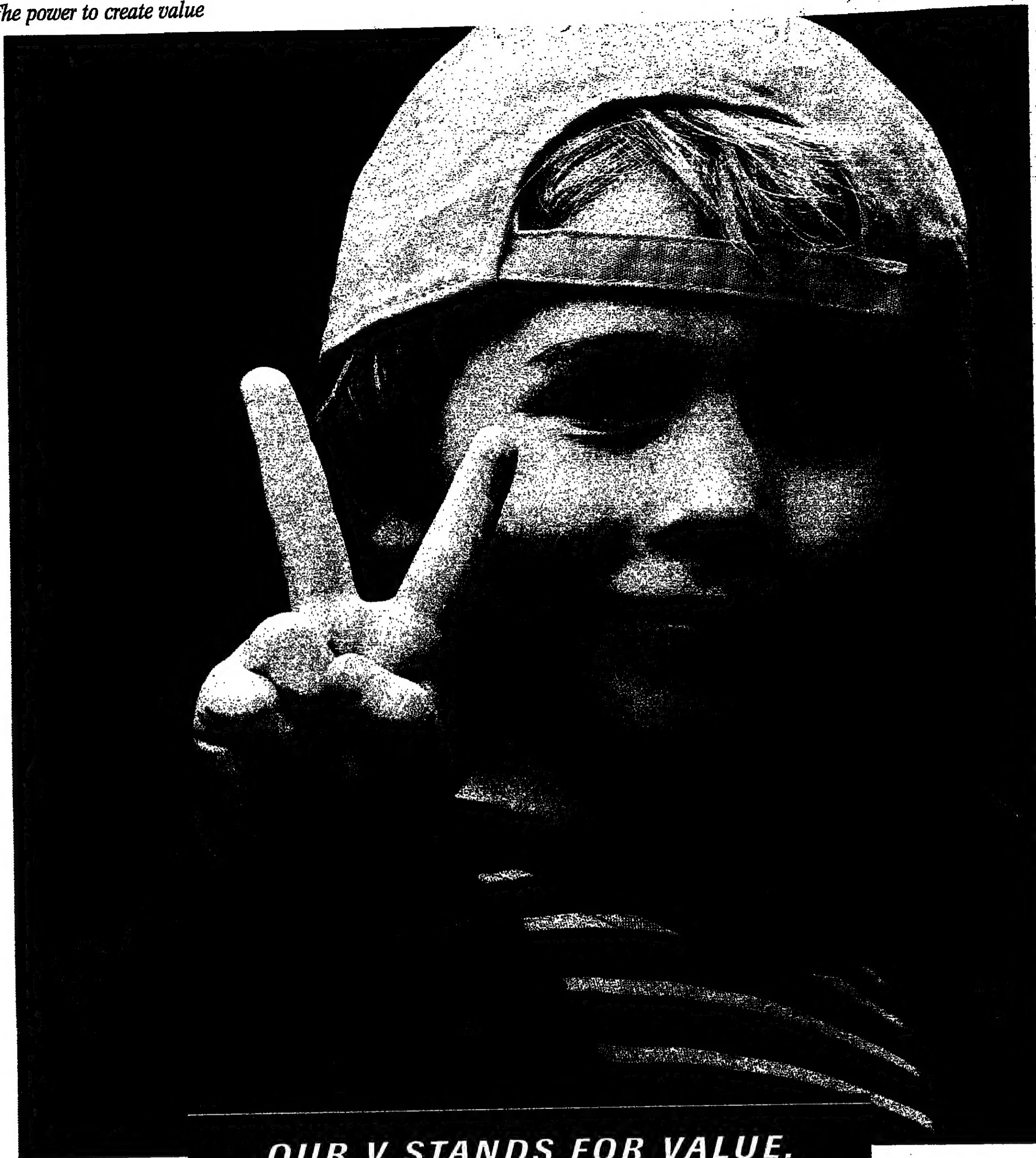
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THE ARTS

NEW YORK THEATRE 'MR PETERS' CONNECTIONS' BY ARTHUR MILLER

Death of the Subject

Arthur Miller is 82 and shows no signs of slowing down. During the past decade the dramatist has been more fecund than at any time since the 1950s, producing interesting plays (*The Ride Down Mount Morgan*, *The Last Yankee*, *Broken Glass*) and adept screenplays (*Everybody Wins*, *The Crucible*) and the kind of overall feel-good vibes that have made universities, drama groups and human rights organisations around the world seek out his participation. In America, where his work, derived for its preachiness and moral condescension, started falling out of critical favour at least 30 years ago, plays other than *Death of a Salesman* and *The Crucible* are receiving high-profile productions.

Miller has adhered to his lifelong role as one of the theatre's premier investigators of the relationship between the individual and society, an exploration that makes his new play, *Mr Peters' Connections*, at first something of a puzzle. Unlike the action in his best known dramas, where public issues are unmistakably embedded in private lives, the events here are primarily internal ones, involving memory, desire, and the nature of discourse.

The question that haunts the title character, Harry Peter (Peter Falk), a retired Pan Am pilot, is: "What is the subject?" He looks around at a world in which one's personal landscape changes more and more rapidly and

wonders most of the time what the hell people are talking about. Miller's 90-minute exploration of the question of subject at times resembles a Beckett monologue; but the playwright is too interested in the nature of human conversation to dispense with human foibles for his protagonists.

Peters has come to visit a run-down city building, an edifice whose history carries an implicit critique of the drift of American culture, formerly a library for the working classes and then a cafeteria hot-bed of Marxism, it is now an abandoned nightclub. The old man is waiting for his interior-designer wife (Anne Jackson) but as he pores over the interior's furnishings too many memories are triggered - particularly

from the 1940s, when he was a navy pilot in the war against Japan - for him to sit peacefully.

Peters continually restates his concern about the Death of the Subject to anyone who wanders in off the street, a group that includes a shop owner, a guitar-toting young composer, and the composer's pregnant friend. While his banter can be quite touching it more often sounds like the out-takes from a seminar in postmodernism. ("There is no subject anymore... it's just talking.") Only occasionally does Miller express his theme in a way that is sufficiently moving or clever to shake Peters - or the audience - out of a torpor. "How like sex the trumpet is," he says ruefully when an old song erupts in his memory, it "always leaves you kind of sad when it's over." And, later, when a conversation has turned to religion, Falk, who gives a fine old-salt of a performance, comments: "God is precisely what is not there when you need Him."

Unfortunately, too little of the

dialogue here registers very resonantly. In view of its character-laden set-up, *Mr Peters' Connections* contains too much rumination, too little revelation. In it there is the occasional reminder of the author's past work, particularly the 1964 play, *After the Fall*, which also features a central character tortured by his past, as well as the glimmer of a kind of beautifully autumnal, thematically summing-up play that Miller may one day create.

If that is not the drama onstage now in New York, one can at least be grateful that the Signature Company - which devotes each season to a single writer - is presenting the new piece so smoothly, under the direction of Garry Hynes.

Signature Theatre, Off-Broadway, New York

OPERA IN CONCERT

The Bonnie and Clyde of the circuit

Richard Fairman reviews opera's most wanted couple in 'La rondine'

The Royal Opera in London should be grateful for small mercies. Not having any money for productions means that it cannot get itself into a tussle with star singers Angela Gheorghiu and Roberto Alagna over whether they like the sets or not. There are not any sets and that is that.

The young couple - opera's "Romeo and Juliet" to their fans, but known as "Bonnie and Clyde" by some in the business - have just rolled into town for a concert performance of Puccini's *La rondine*. They arrived here on the run from a major shoot-out in New York, where the general manager of the Metropolitan Opera has fired them from a forthcoming production of *La traviata* after they refused to sign their contracts without being allowed a veto over the set designs. It is a mark of the bad feeling that he was then prepared to tell the New York Times the how and why of the whole incident in gory detail.

Apparently, the two singers' fees are set at a level which means they are unlikely to play a significant on-going role in the Royal Opera's schedules. The most we can expect is the occasional one-night stand - a sort of smash-and-grab raid which does not leave the budget quite as depleted as a series of staged performances.

Monday's appearance looks to be a typical example. Alagna has gone on record as saying that he wants to concentrate on concerts and recordings rather than live opera, and record companies need artists who are willing to promote their discs, so everybody will have been happy with the choice of a concert performance of *La rondine*, the opera which won the two singers and EMI the coveted Gramophone "Record of the Year" award for 1997.

It seemed glib to call this the live gig of the record, but in the event that was what we heard. The singers were outnumbered on stage by the microphones. With the Albert Hall's sound-reflecting canopy raised into the roof to allow for the stage lighting used in the Royal Opera's ongoing performances of *La traviata*, there probably was no option but to give this single performance of *La rondine* with amplification. It is just a shame that the voices were compromised.

What did we actually hear? Allowing for the resonant bloom added by the electronics, Gheorghiu sounded in very good voice as Magda, floating some lovely quiet singing that was always delicate but had body, even if she was vague about the words.

Alagna was more immediate and impassioned, but there were moments when the top of the voice sounded stressed, a bit like Caravara when he was past the first flush of vocal youth.

The supporting cast was different from the EMI recording and included a bright young secondary couple in Francesco Piccoli, a ready light Italian tenor, as Friar and Rosemary Joshua as Lisette. Donald Maxwell made his mark as Rambaldo. But the other star of the performance was the Royal Opera orchestra, which played beautifully for Gianluigi Gelmetti, a Puccini conductor of suave style and grace.

Given how few opportunities there are to hear this neglected Puccini score, the evening was on balance worthwhile. The Royal Opera is unlikely ever to stage *La rondine*, though Opera North's production a couple of years ago showed it to be a stronger and more purposeful work than it generally seemed here. Perhaps opera's "most wanted" couple should take it on the road with them.

Musical mosaic of Russian history

OPERA

ANDREW CLARK

Boris Godunov
Welsh National Opera, Cardiff

There is nothing new in treating Boris Godunov as a parable of Russian history, but there is certainly something original about David Pountney's version for Welsh National Opera. This is the third Pushkin-inspired opera to be performed by a UK regional company in as many weeks, and it is easily the most impressive.

It would not take much to improve on Scottish Opera's *Queen of Spades* and Opera North's *Onegin*, but WNO's new Boris, unveiled at Cardiff's New Theatre at the weekend, has enough credibility to withstand more challenging comparisons. It is sympathetically cast and competently conducted, and the WNO chorus resounds in polyphonic splendour. What makes the evening special, however, is the intellectual integrity of Pountney's interpretation.

By opting for Musorgsky's first version - much the most challenging of the various options - WNO makes a promising start. This is Boris at its crudest and most uncompromisingly direct. It means no Polish act, no Kromy Forest finale, no songs for the Nurse and Fyodor; but WNO does interpolate the Innkeeper's song from the later version, a decision justified by Susan Gorton's gritty portrayal. In this guise the opera amounts to a mere two and a quarter hours' music, which WNO valiantly performs in a single sweep. The production's aesthetic cohesion is unmistakable.

That does not mean it is always convincing. Until Pountney's ideas start to take shape, the staging looks depressingly artificial, and the guards' filler-scene in the Inn scene fits ill with mod-

ern dress. It also seems a pity to perform the opera in English, dampening the Slavic iconography of music and decor. But having pitilessly laid out the parameters of their approach, Pountney and his designer, Su Hurdley and Donna Muir, follow it through with imagination.

Pountney sees Boris as a mosaic of time, with fragments of Russia's past, present and future forming a visual patchwork that is realistic in detail, abstract in overall impact. The stage is dominated by a wall of brutalist architecture, and populated by characters that would fit downtown Moscow today, such as a street-vendor (the Innkeeper) and gun-toting security police. The boys wear New Age gowns, and there's something equally futuristic about Boris's crown and steel-mesh throne, the latter doubling as a symbol of his psychological imprisonment.

Meanwhile, the suffering of Russian people across the centuries is evoked by faces emblazoned on a blood-stained drop-cloth. The references are sufficiently allusive to keep us guessing their meaning and context, but we are left in no doubt that Musorgsky's portrait of the relationship between ruler and ruled is a blueprint for all time.

Pimen chronicles everything as a neutral observer. His presence, like an eye of history, makes for some unnecessarily cramped settings. But what the production misses in variety and spectacle, it makes up in theatrical flatness - above all in the naked truthfulness of the confrontation between Tsar and Simpaton. In the latter role, Peter Hoare was outstanding.

With a spice of wit, and the physique of a titan, Willard White as Boris makes his presence amply felt. Not for the first time, however, there's an air of detachment in his acting. During Pimen's narration about the wonder-working Dmitry, White tells to



Voice of task, physique of a titan: Willard White as Boris, performed here in Musorgsky's challenging first version

react, and the death scene is melodramatic. The most exciting performance comes from John Duszak, who turns Dmitry into an unrepentant revolutionary, flirting with the Innkeeper one moment and escaping under cover of a bomb the next. It's a pity Duszak was confined to just the one scene, because he sang with great clarity and set the

stage on fire - all of which augurs well for his Grimes next year.

There is surely something more odious about Shusky than Neil Jenkins gives him, and Gwynne Howell's Pimen has seen better days; the smaller roles are well taken. Carlo Rizzi keeps the music moving briskly, but seems reluctant to vary the tempo and draw out

dynamic contrasts within phrases. He also makes little of Musorgsky's austere Russian timbres: I missed the cavernous resonances of the double-basses, the knife-edged woodwind.

Despite these reservations and an overall lack of fervour in the orchestral playing, this is a Boris which will make audiences listen and think.

MUSIC THE BEAUVAIS CELLO FESTIVAL

Gripped by brave new works

An hour or so northwest of Paris, Beauvais boasts a population of 55,000: a nice cathedral - begun in the 13th century, never quite finished (bits of it kept falling off and crushing other bits), but it has the loftiest choir, and a junior cousin of Strasbourg's astronomical clock; and for a week every year, a major all-cello festival.

That is not because there is something funny in the Beauvais water-supply, but because Jacques Bernart, a passionate, unstoppable cello-enthusiast, happens to live there. With him as artistic director, the sixth *Rencontres d'Ensembles de Violoncelles de Beauvais* concluded last week - simultaneously with Manchester's newer cello-festival.

Surely they should put their heads together and agree to different dates?

The thing about cello-fests is that they own not only a distinguished solo repertoire from the past four centuries, but also the five-octave range to make up satisfying modern ensembles by themselves, from pungent basses to ethereal treble flights. Neither violins, violas nor contrabasses can match them for that. Thus a cello festival can offer not only solo pieces, duets etc, but solid "small orchestra" music too, without calling upon any other instruments - though for variety Beauvais sometimes does, with excursions into jazz and Portuguese *fado* too this year.

It was the Brazilian composer-cello-

Villa-Lobos who developed their octet-possibilities first, in two of his *Bachianas Brasileiras*. Now there is a professional French "Octet de Violoncelles", closely aligned to the Beauvais *Rencontres*, which persistently commissions brave new works for itself; also the 10-strong "Cellissime" ensemble and the Amsterdam-based, Spanish-leaning octet "Conjunctio Iberica", who played in Beauvais before I arrived.

In this sixth festival's closing concert the Octet gave premieres of music by Luciano Berio, Betsy Jolas, Kaija Saariaho and Georges Aperghis. All commissioned for Beauvais, with the four composers all at hand: quite a coup, and rewardingly various. Between the

ensemble-works, the Finnish cellist Anssi Karttunen played shorter solo studies by Berio, Jolas and Saariaho with scorching intensity.

He is among the most brilliantly creative cellists alive. No wonder Magnus Lindberg got away with accepting a commission for a new cello concerto next year while insisting that it should be for Karttunen instead of Yo-Yo Ma, the soloist for first choice! Here, the composers were as amazed, gripped and braced as the rest of us by what Karttunen made of their brief pieces.

As for the octet, Aperghis's *Totem* treated them as much theatrically as musically, as is his wont. There was lots of fury, and some hopelessly clogged sound. I find that both aspects tend to be coarse-grained in such pieces (i.e. the music doesn't tempt a second hearing), but the French like that sort of thing: in this case, brandishing hints and echoes of "ancient" dances and chant in a vaguely apocalyptic way.

Saariaho's *Neiges*, inspired by looking out of her window at a Finnish snowstorm, exploits many *ouvert*, icy textures toward a coolly serene close. Berio's abstract *Sorci* is a lyrical virtuoso piece, as expected: who could respond better than Berio, when asked to write for eight intrepid cellists? He should have thought of it long ago.

Jolas (Franco-American, 73 this year) was struck by the idea that all cellos must somehow be siblings. Accordingly her *Sonata a huit* is a "family drama", with the basic music continually surfacing in different voices, accents and undertones. The dramatic plan seems scatty, moment by moment, but by the end everything draws together - softly, sparsely, originally. Jolas is an original: I've heard no music so specifically *feminine* as hers, immune to the clichés of "feminist" orthodoxy.

David Murray

INTERNATIONAL Arts Guide

BATH

EXHIBITION

American Museum
Shaker: The Art of Craftsmanship.
Furniture and decorative arts from the Shaker community at Mount Lebanon. The show traces the origins of the Shaker movement from late 18th century England to 19th century America; to Oct 25

BERLIN

CONCERT

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist André Schiff; May 23, 24, 25

BRUSSELS

OPERA

La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kenrick. With

the Handspring Puppet Company, at the Luntheater, May 20, 22
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Asschmann; May 20, 21, 22, 23

CHICAGO

CONCERTS

Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 3 and 4; May 22, 23
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 25

FLORENCE

OPERA

Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiomusicale.it
● Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETL-Teatro della Pergola; May 21, 23
● Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; May 26

GENEVA

CONCERTS

Victoria Hall
Tel: 41-22-3170017
Orchestre de la Suisse Romande:

conducted by Edmon Colomer in works by Turina, Ravel and Falla. With piano soloist Alicia de Larrocha; May 20

LONDON

CONCERTS

Royal Festival Hall
Tel: 44-171-980 4242
The Royal Opera: Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast includes Deborah Voigt and Thomas Moser; May 22, 25

EXHIBITION

Tate Gallery
Tel: 44-171-887 8000
Per Kikiak (b.1938): continuing the series of contemporary sculpture displays, this exhibition includes paintings, sculptures and a specially constructed brick structure by the Danish artist; to May 26

LOS ANGELES

CONCERTS

Dorothy Chandler Pavilion
Tel: 1-213-365 3900
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts a programme of works by Rameau, Haydn and Beethoven; May 20
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts works by Krussen and Mahler; May 21

MOSCOW

THEATRE

Moscow Arts Theatre

Tel: 7-085-229 8780
Persophone: director Robert Wilson makes his Russian debut with his interpretation of the myth of Zeus's daughter, who was abducted by Hades and made queen of the underworld; originally created for outdoor performance, the show runs until May 23

MUNICH

CONCERTS

Philharmonie Gasteig
Tel: 49-89-5481 8181
Ivo Pogorelich: recital by the pianist of works by Rachmaninov, Granados, Prokofiev and Chopin; May 25

NEW YORK

CONCERTS

Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in Shostakovich's Symphony No. 7, "Leningrad"; Avery Fisher Hall; May 21, 22, 23

EXHIBITIONS

Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Visions of Paris: Robert Delaunay's Series. Previously seen in Berlin, this exhibition focuses on the series paintings made by the artist in Paris, of subjects including Saint-Séverin and the Eiffel Tower; to May 24

Metropolitan Museum of Art

Tel: 1-212-879 5500
www.metmuseum.org

Augustin Pajou, Royal Sculptor: first retrospective devoted to works by the French sculptor (1730-1809), successful in the French Royal Academy of Painting and Sculpture and a favourite of Louis XV and Louis XVI. Includes marble statues, portrait busts, terracotta sketches, models, and drawings including designs for the opera at Versailles; to May 24

Museum of Modern Art

Tel: 1-212-708 9480

Chuck Close: retrospective of the American painter, comprising 90 works and ranging across his career; to May 26

Pierpont Morgan Library

Tel: 1-212-885 0008

a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer, and author of Alice in Wonderland; from May 20 to Aug 30

THEATRE

Broadhurst Theatre

Tel: 1-212-239 6200
The Judea Kiss: by David Hare. Richard Eyre directs Liam Neeson as Oscar Wilde in this Almeida Theatre production, transferred from London

Cort Theatre, 138 W. 48th St.

Tel: 1-212-239 6200
Freak: John Leguizamo's autobiographical one-man show about growing up in New York, directed by David Bar Katz

Golden Theatre, 252 W. 45th St.

Tel: 1-212-239 6200
The Chairs: by Ionesco. Théâtre de Complicité/Royal Court production transferred from London. Simon McBurney directs Geraldine McEwan and Richard Briers

OSAKA

EXHIBITION

The Museum of Art, Kitetsu
Tel: 81-6-624 1111
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame; to Jun 8

PARIS

CONCERT

Théâtre des Champs Elysées
Tel: 33-1-49325050
Vienna Philharmonic Orchestra: conducted by Seiji Ozawa in works by Brahms and Stravinsky; May 26

ROTTERDAM

EXHIBITION

Kunsthall
Tel: 31-10-440 0300
Look at me: Fashion and Photography in Britain 1960 to the present. First stop for a touring exhibition which tracks the development of fashion photography, with its emphasis firmly on popular culture rather than haute couture; to Aug 9

SAN FRANCISCO

CONCERTS

Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony

Orchestra: conducted by Michael Tilson Thomas in works by Mozart, Lukas Foss, Stravinsky and Berg. With soprano Renée Fleming and horn soloist A David Krahel; May 20, 22, 23

TOKYO

CONCERTS

Suntory Hall
Tel: 81-3-3584 9998
● Cleveland Orchestra: conducted by Dohnányi in works by Ives, Mozart and Brahms; May 20
● Cleveland Orchestra: conducted by Dohnányi by Bartók, R. Strauss and Dvorák; May 21

TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
Monday to Friday, GMT:

06.30: Moneyline with Lou Dobbs
13.30: Business Asia
19.30: World Business Today
22.00: World Business Today Update

● Business/Market Reports:
05.07: 06.07: 07.07: 08.20: 09.20: 10.20: 11.20: 11.32: 12.20: 13.20: 14.20.

At 08.20 Tanya Beckett of FTV reports live from LFFE as the London market opens.



EDWARD MORTIMER

Nuclear hypocrisy

How can we expect India and Pakistan to eschew nuclear weapons if the UK and France have them?

Kurt Georg Kiesinger, otherwise the least memorable of Germany's postwar chancellors, deserves to be remembered for one great remark. The nuclear non-proliferation treaty, he said, "is like a bunch of notorious drunkards inviting everyone else to sign the pledge".

I was reminded of this last week during the explosion of outrage which greeted India's nuclear tests.

India has a consistent stand on this issue. It has always refused to sign the NPT, which it regards as perpetuating a gross inequality between powerful and powerless states: those that have nuclear weapons, and those that do not.

It also refused, quite logically, to sign the more recent comprehensive test ban treaty. Tests are the method by which a state can confirm its status as a nuclear power - to its own satisfaction and, perhaps more important, to the rest of the world.

The five nuclear-weapon states recognised by the NPT had all conducted many tests before they signed the CTBT. France and China both conducted series of tests, provoking worldwide indignation, immediately before announcing their agreement to sign.

The French case, especially, offers some parallels to India's behaviour and might even have inspired it. Jacques Chirac announced the tests shortly after becoming president, just as India's new BJP government has acted soon after taking office. Mr Chirac thereby established his Gaullist credentials, making it easier for him to proceed to slaughter the sacred cow of non-proliferation. Slaughtering sacred cows would not be the right

metaphor for a Hindu nationalist government, but some Indian economists do expect that the nuclear tests will make it easier for the new government to push ahead with economic reforms, which would otherwise run into strong opposition from the right of the BJP. India is also hinting it may change its position on the test ban treaty, which cannot enter into force until India, along with other states that have civilian nuclear industries, has ratified it.

The test ban treaty, unlike the non-proliferation treaty, poses no issue of principle for India, because it does not discriminate between nuclear and non-nuclear powers. The NPT, by contrast, freezes indefinitely an arbitrary distinction based on the status quo of the mid-1960s. The five states that had tested a nuclear weapon before 1967 are recognised as nuclear-weapon states. No one else is allowed to become one.

Under the treaty, however, the nuclear-weapon states did commit themselves to strive for general

disarmament. And in 1995, as the price of getting the treaty extended indefinitely, they accepted that this involved the "determined pursuit by the nuclear-weapon states of systematic and progressive efforts to reduce nuclear weapons globally, with the ultimate goal of eliminating those weapons".

The question is, did they mean it? And if so, what are they doing about it? The answer to the second question is that they are doing little or nothing. So, in answering the first, the reasonable conclusion of most non-nuclear states is that they did not mean it. More than that, the current nuclear five assume that the recent crisis with Iraq, by demonstrating the danger posed by "rogue" states, has shown why it is necessary for "civilised" states like themselves to retain a nuclear deterrent.

It is far from clear, however, that nuclear weapons offer any solution to the problems of "rogue states". James Baker, who was US secretary of state at the time of the Gulf war, reveals in his memoirs that

the coalition forces in that war decided "not to retaliate with chemical or nuclear weapons even if attacked with chemical munitions".

Why? For reasons made clear in 1995 by the Canberra Commission on the Elimination of Nuclear Weapons. "Use of nuclear weapons in response to use or threat of use of other weapons of mass destruction," the Commission observed, "would cross an important psychological as well as military threshold, making the management of future conflicts even more uncertain."

Moreover, even the threat of such use, against a non-nuclear state is contrary to the "negative security assurances" which nuclear-weapon states have given. And it is clearly illegal under the terms of a world court decision two years ago banning any threat to use nuclear weapons by a state unless "in an extreme circumstance of self-defence, in which its very survival would be at stake".

Many people still find a nuclear-free world hard to imagine. At best it is only a long-term prospect, depending in the first instance on further disarmament negotiations between the US and Russia, which between them have many times more nuclear weapons than all the other nuclear powers together.

Yet that does not let those smaller powers off the hook. Equality with China is the specific reason given by India for needing a nuclear deterrent of its own (just as Pakistan in turn cites equality with India).

France and the UK in particular have a lot to answer for. They, after all, live in the safest part of what is now one of the safest continents, and in the world's strongest and most successful alliances, guaranteed by the only remaining superpower. If they cling to an independent nuclear deterrent as supposedly essential to their national security (or even worse) to their international status and self-respect, how can they expect India and Pakistan to do without one?



Leaders who chose to test: China, left, and Vajpayee

Edward.Mortimer@FT.com

LETTERS TO THE EDITOR

Deflation and falling demand likely outcome of free market free-for-all

From Alan Simpson MP and Colin Hines.
Sir, The writer of your editorial, "Golden jubilee" (May 18), lives in a very different world from most of us. For the 70,000 protesters demanding debt relief at the G8 meeting last weekend, reality is the precise opposite of your assertion that the present trading system has "contributed immeasurably to international stability and prosperity".

Indeed, activists from post-nuclear test Delhi were clear that India's actions are essentially an effort to deflect internal unrest from increasing impoverishment caused by globalisation.

The multilateral trade system is not just bad for the majority in the third world.

It increases income-inequality and job loss in OECD countries as well. This should be of immediate concern to the business leadership of the Financial Times, as we show in our report "Who Will Buy?" released to coincide with this week's 50th anniversary "celebrations" in Geneva.

Global deflation and declining effective demand are likely to be the real consequences of the current free market free-for-all. Deregulation, automation, relocation and the shift of tax revenues from citizens' welfare to corporate welfare are all part of the seriously destabilising forces currently distorting the global economy.

A secure future for the

majority (and for business) is to be found more in "protect the local, globally" strategies that rebuild and diversify local and regional economies.

Free trade's 50th should be seen against the problems facing the weekend's G8 summit - the fall-out from Asia's currency crisis, the fall-out from nuclear testing, riots in Indonesia, mafia-marketsteering in eastern Europe and 18m jobless in the EU.

Someone ought to question just how much more free-market "success" we can stand.

Alan Simpson, Colin Hines, 1 Talbot Street, Nottingham NG1 5GQ, UK

The aged and disadvantaged

From Professor David R. Cope.
Sir, In his article, "The old world is in need of young blood" (May 9), Joe Rogaly falls prey to simplistic demographic determinism in arguing that Europe will be disadvantaged compared with the US by its impending population age structure.

Europe's "third age", in general healthier (and wealthier) than any such group in history, should be capable of market-stimulating innovation at least the equal of any other society. Moreover, collectively they can draw on many years of insight and experience - providing the context of a society that has large reserves of experience and wisdom.

Mr Rogaly also understates the ambivalent attitude of the US population to its demographic future. Already, several powerful environmental organisations have been riven by profound disputes over whether its current and future population growth is a dominant cause of environmental degradation.

David R. Cope, Flat 402, Rowan House, 9 Greycoat Street, London SW1P 2SD, UK

The best scenario for Microsoft's future

From Mr Paul Hinton.
Sir, Lex (May 18) states that separation of Microsoft's operating systems business from its applications business would be the worst case scenario for Wall Street. Perversely, if this were so it would strengthen, not weaken, the US justice department's case. Separation of these businesses,

while a dramatic act, would be less disturbing of Microsoft's ability to compete than, for example, direct regulation of future operating system enhancements.

Thus direct regulation, not separation, should be feared most by Wall Street; unless Microsoft derives super-

competitive profits, for strategic reasons, from running its operating systems and applications businesses under one roof. In this context, separation could be best for consumers.

Paul Hinton, 189 Hoyt Street, Brooklyn NY 11217, US

Too strong a condemnation of a tried accounting system

From Mr Ron Paterson.
Sir, Jim Kelly likened my firm's defence of conventional accounting to singing the praises of a broken clock - because it is right some of the time ("Fix that broken clock", May 2). He argued that investors want extra information and that annual reports should give it to them, perhaps by supplementing historical costs with valuations or by adding risk disclosures.

However, the fact that these reports do not cur-

rently give investors all they would like to know does not mean the clock is broken. You may as well condemn a clock for not forecasting the weather. To expect this of an annual report is to misunderstand its role; it is a report on an expired period from the directors to the members of the company and carries the legal responsibilities for directors and auditors that reflect that function. Readers may well wish to use the accounts as one input to an investment

decision, but only foolish investors would expect this to be the sole input.

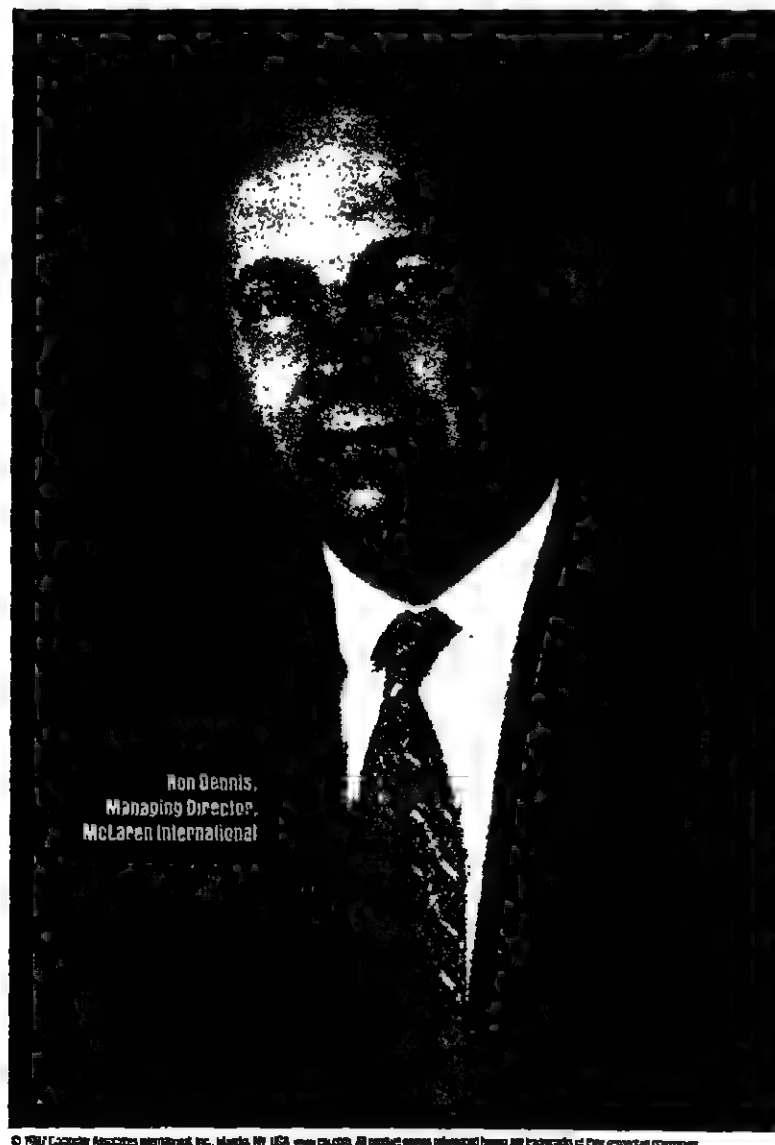
That is not to say company reporting cannot be improved. But historical cost accounts remain the bedrock of financial reporting around the world and do a better job than their detractors would suggest. By focusing on actual transactions and cash flows, they allow readers a relatively clear insight into the affairs of the companies concerned.

Paradoxically, the intro-

duction of valuations can sometimes cloud that picture more than it clarifies it. Similarly, a clear account of the past can provide a better basis for readers to forecast the future than one that has already impounded the directors' own predictions.

Ron Paterson, Ernst & Young, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 3NH, UK

Software Winner



Ron Dennis, Managing Director, McLaren International

McLaren is one of the whizzbang teams in Formula One history. Since 1966, McLaren has won seven Constructors' World Championships, nine Drivers' World Championships and more than 100 Grand Prix. Not to mention three Indianapolis 500 wins, the Le Mans 24 hour endurance race and five consecutive Can-Am sports car titles.

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"I have a favourite saying, that is, to come in second is to be the first of the losers," says Ron Dennis. "At McLaren we're interested only in winning and we associate ourselves only with winning companies. With Computer Associates and McLaren, we have two winning companies sharing a common goal and common partnership."

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PERSONAL VIEW HARVEY SAPOLSKY and EUGENE GHOLZ

Arms and the European

Europe could do a lot better than follow American practices in restructuring the defence business. There again, so could America

French intransigence is slowing down the consolidation of the European defence industry. The French want to preserve state ownership in the industry and to prevent the displacement of workers that rationalisation might require. It all sounds extremely retrograde - but the delays the French are causing are actually blessings in disguise.

Europe does not need continent-wide consolidation producing companies that supply defence equipment to Europeans only. Rather, it needs to develop consortia between American and European arms makers. These transatlantic partnerships would then compete for joint weapons projects in a bigger market, that is, the combination of the two main parts of the Nato alliance.

Europeans who argue in favour of consolidation focus on the need to match the scale and efficiency of the recently merged and supposedly rationalised American defence industry.

The problem is that this is not a correct portrayal of the American industry. To be sure, there has been a mammoth wave of mergers, little affected by antitrust measures. Three large firms have formed - Boeing, Lockheed Martin and Raytheon - while many other familiar namesplates such as Rockwell, McDonnell Douglas, General Electric and Westinghouse have disappeared from the defence business. Hundreds of thousands of defence workers have lost their jobs in the US since the end of the cold war.

But the mergers have not significantly reduced the huge excess capacity in the defence industry. This excess accumulated during the military build-up in the 1980s under President Ronald Reagan which doubled the size of the private sector of the industry. Since the end of the cold war, not one production line making a weapons system - a warship, military aircraft or armoured vehicle - has closed in the US. Although several such lines have



switched corporate identity, all are still producing, if more slowly. Despite redundancies, there are still 400,000 more private sector employees working in the defence business now than in 1976, just before the Reagan build-up began.

Closures have not occurred, because defence has become a jobs programme in the US.

During the cold war, the risk of military clash with the Soviet Union was real enough to give the American armed services a large say in the weapons that were acquired. Because of that, it was possible for a firm to fail if it did not heed the interests and needs of its military customers. Many lines closed. Reimbursement schemes such as Republic, Curtiss-Wright, Chance Vought, Martin, North American and Fairchild? All were formerly producers of American military aircraft that lost their prime contractor status during the cold war.

Compare what has happened since then. Once the Soviet Union collapsed, the power of military preferences declined relative to those of local communities and their eager-to-please congressional representatives. Clearly, some defence cuts had to be made and were made. But given American society's bias in favour of the private sector, it has been public arsenals, shipyards and bases that have

taken the bulk of the budget cutting pressure.

Unfortunately, many European observers seem to believe the hype rather than the reality of the current US defence consolidation. The American industry is often described as lean and newly efficient. As a result, it is portrayed as a threat to continued European weapons exports.

In fact, the new height of efficiency that the American industry has obtained is in lobbying its government for resources. The prime contractors are not so much high-tech experts - although, of course, they make excellent, advanced weapons systems - as they are experts in the political ways of their Congressional customer. European industry, once consolidated, would be only too likely to capitalise on its political power in the same way, avoiding plant closures by binding governments to make-work projects that preserve local employment.

One way that both European and American governments can protect themselves from being exploited by the lobbying efforts of defence companies is to encourage transatlantic weapon competitions among consortia of American and European firms. European navies should define requirements in co-operation with the American navy. European air forces with the US

air force, and European ground forces with their American counterparts. Greater efficiency gains will be found by expanding the production runs of similar products, designed for similar military services, than there would be in cobbling together the requirements of the various military branches in another multi-service experiment. The bigger pool of work would help support several rivals in each weapon category efficiently, an unlikely outcome if consolidation is limited to a continental scale.

There is another important reason to favour these cross-Atlantic collaborations. Since the end of the cold war, the US has kept 100,000 troops in Europe as a sign of its commitment to European security. That commitment of forces, though, is untested by crisis and goes against historical precedent. One cannot imagine that American troops will stay much into the new century.

Instead, the likely opportunity to tie the US to Europe will come in joint security planning and weapons purchases. The design of common equipment and the management of joint projects are bonds that can endure.

European governments also share with the Americans an interest in limiting the power of industry lobbyists to produce duplication and uneeded weapons. Why make an F22 when there is a Eurofighter? Why develop a new large transport aircraft when there is a C-17? Recently, there have even been indications that transatlantic industrial ties may finally be forming. GEC's purchase of Tracor, an American defence electronics firm, is an encouraging sign. Perhaps there can be more progress soon - especially if the recalcitrant French keep intra-European consolidation bogged down in a mire of politics.

Mr Sapolsky is professor of public policy at the Massachusetts Institute of Technology. Mr Gholz is an Olin fellow at the Center for International Affairs at Harvard University.

FINANCIAL TIMES

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Wednesday May 20 1998

Russia's dilemma

Last weekend, Boris Yeltsin participated as a full member at the summit of the new group of eight leading industrial countries. But the country he then returned to is still a shaky emerging economy. Russia's vulnerability to the turmoil elsewhere reflects continued failure to make its monetary and fiscal policies credible.

Since Russia is a large country, heavily dependent on oil and strongly influenced by a corrupt business elite, Indonesia's crisis was bound to bring it to the markets' attention. The pressure has come via the foreign exchange market. To meet it, the central bank has raised interest rates sharply: Lombard rates are 80 per cent, from 30 per cent only last week, and real interest rates are around 40 per cent. Not surprisingly, the stock market has plunged - by 22 per cent since the beginning of last week and almost 80 per cent from last October's peak.

Fortunately, the impact of high interest rates on Russia's undeveloped market economy is not that large. It is the effect on the fiscal position that is more immediate and powerful. This is part of a vicious circle. One explanation for the loss of market confidence is worry about Russia's fiscal position. But that is, in turn, worsened by the high interest rates needed to defend the exchange rate.

What are the authorities to do? The response must come on

two principal fronts.

First, the lack of any convincing alternative to the exchange rate as the anchor for monetary policy, combined with the frightening east Asian evidence on what happens when pegs collapse, makes a credible commitment to the exchange rate imperative. The central bank must make it clear it will raise rates to whatever level may be needed to hold an exchange rate that is not fundamentally overvalued.

Second, the government must build on its recent success in cutting the fiscal deficit. In the first two months of this year the federal budget deficit was down to only 2.3 per cent of gross domestic product, as a result of higher revenue and lower spending than last year. In the longer run, fiscal credibility must be achieved by curbing spending, since the share of consolidated revenue in GDP, at 30 per cent, is already high by the standards of countries at similar income levels.

Russia has had much bad luck. Every time it may be on the eve of a convincing economic recovery, something moves that prospect over the horizon. It has been unlucky once more. Its best response, however, must be to strengthen the fundamentals still further. It has come a long way already. If its government continues on its present path, it deserves continued outside support.

Hague's lecture

British political leaders have developed an unfortunate habit of crossing the Channel to lecture their European partners. Thus William Hague's Fontainebleau speech yesterday was delivered in the style of his two Conservative predecessors - Margaret Thatcher in Bruges and John Major in Leiden. Tony Blair, the Labour prime minister, speaks from a different text but he too has been known to adopt the reproving tone.

At first glance, Mr Hague's contribution to this tradition contains common sense. He makes the case for market disciplines in preference to post-war corporatism, for lower taxes instead of higher social costs and, above all, for the speedy enlargement of the European Union to the new democracies of the east.

Then it all goes wrong. What promises to be a sensible plea for the nations of the Union to adjust their integrationist ambitions to the mood of the times lapses into the familiar Eurosceptic characterisation of the EU as a plot. Thus Mr Hague accuses its institutions of "taking" key elements of Britain's executive, legislative and judicial authority. The reality, of course, is that such powers as the EU has accumulated were freely transferred by national governments, most notably perhaps by the then Mrs Thatcher in her signature of the Single European Act.

Irish boom?

While attention is focussed on the chance of peace in Northern Ireland, the economy in the south continues to grow at a rapid rate. So rapid, in fact, that worries are mounting that the start of economic and monetary union could be marred by a damaging bout of inflation in the EU's fastest-growing economy.

On the face of it, Ireland looks like a prime candidate for a serious rise in inflation. Output growth averaged nearly 9 per cent over the past four years, and is set to grow by over 8 per cent this year. The trade-weighted value of the Irish punt drifted down by nearly 10 per cent over 1997, which was only partially reversed by the recent revaluation. And by the beginning of next year, when Emu starts, short-term Irish interest rates will have to fall to continental European levels - which means a cut in the repo rate of at least 200 basis points. The inflation rate, which was one of Europe's lowest, is now 2.5 per cent and rising, thanks mainly to the exchange rate effect.

Wages are the most immediate concern. Public sector pay, which has been constrained since 1986 by the Partnership 2000 wage pact, is under most pressure, with strikes now breaking out. But these pressures are not as great as they might first appear. Yes, there are certainly skill shortages in some areas. But

more importantly, there is a large, and growing, pool of labour. The unemployment rate is still 9.5 per cent, and demographic effects combined with net immigration mean that the labour force is increasing at an annual rate of 2 per cent.

The strength of the asset markets presents a greater risk. The stock market index is up 30 per cent this year alone, and property prices have risen by 15 per cent in the last twelve months. The cut in the capital gains tax rate from 40 to 20 per cent in the latest budget only added to the momentum. The markets will not necessarily crash - some of the strength in house prices, at least, is just due to demographics. But there is certainly a risk. It might only take a small downturn in growth for earnings expectations to be revised down, triggering an equity market fall. If this pulls the housing market down, the Irish banking system could be the biggest victim.

The Irish economy remains in a healthy state. But the government must face up to the risks it is running. Since monetary policy has to be loosened to join Emu, Dublin must compensate by significantly tightening fiscal policy. This will be difficult, not least because tax cuts are a key weapon in persuading the unions to stick to the wage pact. But in joining the single currency, Ireland has no other option.

Ulster down to the wire

John Murray Brown and Edward Mortimer consider the last-minute jitters affecting the Irish peace agreement

The Northern Ireland peace agreement is going from high hopes to a nail-biting finish. This Friday, Ulster will hold what is probably the most important vote in either part of Ireland since the island was partitioned in 1921.

The province's 1.2m voters are being asked to back the second reached at last month's multi-party talks, setting up an elected power-sharing assembly and new cross-border institutions for co-operation with the Irish Republic.

When the negotiators emerged bleary-eyed into the daylight on Good Friday with the agreement in place, many must have felt that the hard bit was over. Such was the self-confidence in the largest party, the Ulster Unionists, that one adviser even suggested the party should not even campaign for the referendum, but conserve its energy resources for the subsequent election to the Ulster assembly.

In the first week of the campaign the party's leader, David Trimble, went to the US to honour a speaking engagement. If a vote had been taken then, there is little doubt it would have been warmly endorsed. But recent opinion polls have shown a steady drift of unionist voters into the No camp, accelerated after the triumphal appearance of IRA prisoners at Sinn Féin's party conference the weekend before last. Suddenly, the outcome does not appear so certain after all. Unlike 1985 when unionist parties closed ranks in opposing the Anglo-Irish agreement, today the unionist community is split. Predictions are much harder to make.

It is not that the overall result is in doubt. With nationalists strongly in favour, the referendum is certain to be carried even if less than half the larger unionist community vote for it.

But there are big questions about the size of the majority and potentially big differences between the implications of a resounding majority (say, 70 per cent in favour) and those of a more muted approval, with perhaps 60 per cent, implying that a majority of unionists might have voted against.

The political reality is that anything less than an emphatic Yes will be seized on by the opponents of the deal as proof that the unionist community has not given its consent.

It is easy to see why. Northern Ireland has been in this position once before, after the Sunningdale agreement in 1973. On that occasion there was no referendum, but in the new assembly unionists opposed to the deal outnumbered those willing to share power with nationalists. The power-sharing executive headed by Brian Faulkner collapsed after only five months, in the midst of a unionist general strike.

A Yes vote of over 70 per cent this Friday would probably provide enough of a tail wind for Mr Trimble to avoid Faulkner's fate. His deputy, John Taylor - one of the few veterans of Sunningdale still in politics - believes 65 per cent would suffice.

A two-thirds majority remains a possible outcome. Mr Trimble yesterday appeared confident the tide was turning in his favour. "We've had our wobbly patch, we're over that and the goal is in sight."

But what if he is proved wrong? The new assembly would still be set up to do anything else, officials say, would be undemocratic.

But everything else would be changed, in particular the political



of Mr Trimble and the unionists on the one hand, and Gerry Adams and the Republicans on the other. The upshot could be that the assembly would be an empty vessel, a shouting shop.

Anything short of about 65 per cent could trigger a challenge to Mr Trimble's leadership of the Ulster Unionists. If the "Noes" then did well in the assembly elections to be held on June 26 they would in practice be in a position to subvert the working of the assembly.

They could, for example, block the election of a new chief executive (a sort of prime minister for Ulster). That would mean that even though they could not wreck the power-sharing provisions of the deal, they could frustrate the setting up of the North-South institutions that it provides for. These are vital parts of the agreement for nationalists, and without them the expected Yes vote in the south would become meaningless, since the constitutional amendment dropping the Republic's claim to the north would not take effect. Hence, if the approval was below about 80 per cent, everything could go for naught even though there was a majority and even though the assembly was actually set up.

Such an outcome would also play into the hands of radical nationalists and republicans, who would argue that the agreement had been wrecked by unionist refusal to accept a majority vote (the very principle on which they rely to keep Ulster British). Some unionists believe this has been Sinn Féin's game all along: playing for a stalemate which

'We've had our wobbly patch, we're over that and the goal is in sight'

would provide an excuse for the IRA - or at least republican splinter groups - to revive the war and pitch Northern Ireland into another cycle of violence and destruction. Even if this was not the plan, the Republicans would still have achieved much; at the very least, their rivals, the unionists, would have been plunged into disarray.

So how has everything gone from high hopes to these fears in a month? And what are the chances that the vote could, after

all, turn out convincingly in favour? In practice, Mr Trimble has seemed uneasy about recommending the deal with any enthusiasm. The constitutional arrangements are complex, and the inevitable compromises, especially the one allowing Sinn Féin leaders to become ministers on the basis of proportional representation, are not easy to sell to a defensive unionist audience, many of whom feel they have been bombed to the negotiating table by the IRA.

The No camp, having boycotted the talks, entered the fray fresher than its opponents. It seized the initiative, exploiting the doubts expressed by senior members of Mr Trimble's party, including a member of his negotiating team.

The main weakness of the No campaign is its lack of a positive alternative to the agreement. But the Rev. Ian Paisley, leader of the Democratic Unionist party, has a neat retort to this argument: "Of course there's an alternative to letting convicted murderers out of jail. Keep them locked up!"

His DUP alone probably accounts for a solid 20 per cent of the total vote. But there are signs the No camp is now mustering support well beyond that, from voters who would normally have little truck with Mr Paisley's anti-Catholic populism.

The main battle is being fought for these so-called "soft No" voters - unionists who initially either welcomed the agreement or were not intending to vote, but are now seriously worried. An important component of this group is the religious vote. All the main churches have remained non-committal, but several prominent clerics have come out against the deal, arguing that it rewards violence.

Among voters aged 18 to 30, by contrast, a poll in the Irish News on Monday suggests there is much more support for the deal than in the population as a whole. Equally critical for the Yes camp, in this age group only 10 per cent said they would not vote, compared with around 20 per cent of the overall population.

Turnout will be critical. In general elections it has varied from 58 per cent in Protestant North Down to 92 per cent in the border constituency of Fermanagh and South Tyrone. The disparity underlines the fact that voter apathy tends to be much more widespread among unionists. But government officials believe the turnout this time could be as high as 80 per cent. This is supported by the unusually high number of applications for postal votes from people working outside the province.

Even if the Yes camp succeeds in winning a respectable majority, the battle will not be over. The opposition will have a second chance with the assembly elections five weeks later.

The big question is how far these elections will reflect the referendum result. Many of those persuaded to vote for the first time on Friday may be unwilling to come back and vote for the familiar faces on June 26.

In particular, with an electoral system favouring the bigger parties, those working-class unionists attracted to the more radical politics of the small loyalist parties (which are backing the Yes campaign) may stay at home feeling the mainstream parties have nothing to offer them.

To be able to wreck the assembly by vetoing the election of the chair and key officers, the Paisleyites would need a huge swing away from Mr Trimble, which even on the evidence of recent polls may prove a tall order. The rules require that such key decisions are taken on the basis of a straight majority of both unionist and nationalist members, or a 60 per cent majority comprising at least 40 per cent of each block.

None the less, Sydney Elliott, a political scientist at Queen's University in Belfast, says Mr Trimble will face a hard campaign to regroup his forces for the assembly elections. He may be encouraged by yesterday's statement from Mr Donaldson, who has come to personify the doubts over the deal within the UUP, that after voting No on Friday he would be back working with Mr Trimble on Monday for a strong UUP vote in the assembly. But support on those terms highlights Mr Trimble's next dilemma: will he accept people on his ticket who have defied him in the referendum campaign? Or indeed, will he be strong enough to deny them party endorsement even if he wants to?

Given the autonomy of the Ulster Unionist constituency associations, party officials say there is little he can do to prevent No-campaigners being selected. For Mr Trimble, Friday is the first big hurdle.

But whatever the outcome then, the battle to secure the new deal for Northern Ireland will have only just begun.

OBSERVER

Presidential bid on the line

Antonio Di Pietro, the former Italian magistrate whose anti-corruption investigations unseated a prime minister and shook the foundations of Italian capitalism, is threatening another tour de force at recently privatised Telecom Italia.

Now a senator with the ruling centre-left Olive Tree coalition, Di Pietro is threatening to turn up in Turin on June 16 at the shareholders' meeting to "defend the rights" of the 1.5m small shareholders.

In his regular column in the weekly gossip magazine Oggi, Di Pietro says the small fry who own 85 per cent of Telecom Italia's capital "count for less than zero". All the levers are pulled by a group of "stable shareholders" - including the Agnelli family - who own 6.15 per cent of the company.

His intervention won't be music to the ears of Gian Mario Rossignolo, Telecom's embattled chairman, who has been trying to adapt the old telephone monopoly to a private enterprise culture - there has been fighting worthy of the Borgias in the executive suite.

Rossignolo has also upset the government - still the largest shareholder - by ditching a strategic agreement with AT&T in favour of a hook-up with Cable & Wireless. The last thing he needs is a people's champion snapping at his heels.

Di Pietro is making himself unpopular with the Olive Tree's top brass by cultivating an independent populist approach, apparently pulling out all the stops to boost his poll ratings for an eventual bid for the presidency. In which case, the votes of 1.5m Telecom Italia small shareholders are not to be sniffed at.

Loudon clear

The Netherlands' revamped legislation on insider trading is among the toughest in the world, says Francis Loudon, the former MeesPierson banker who these days runs bourse watchdog STE.

The STE's annual report, released yesterday, showed that 24 such investigations took place last year. So let's hope that no future probe centre on European Vinyl Corporation, Wegener Arcade or De Drie Electronics. Oddly for a regulator, Loudon is a non-executive director at all three Amsterdam-listed companies, chairing the supervisory boards of the last two.

"Theoretically a conflict is possible," he said yesterday, "and an elegant solution would have to be found." Pointing out that these little earners had the blessing of finance minister Gerrit Zalm, Loudon added mildly: "In the old days we were all part-timers."

On the brawl

There will be a place of honour at the inauguration of the next

Philippines president for an American called Patrick Hilton. That's assuming, as most Filipinos do, that Joseph "Erap" Estrada has won - and that Hilton can be found.

Estrada's allies are trying to track down Hilton because he changed the vice-president's life. In 1983 a playground punch-up got them both expelled from the snooty Jesuit-run Ateneo de Manila High School. If Estrada had stuck with the Jesuits he might have become just another lawyer, accountant or banker.

The Jesuits would not have encouraged him to drop out of college and become a high-living, womanising, tough-guy B-movie actor, the career that launched him into politics. Hilton made a mark on Philippines history, as well as on Estrada's nose.

In another sign of confidence in Estrada's victory, President Fidel Ramos has given him a tour of the Malacañang Palace, even introducing him to the servants. "I told him that I would keep them," said a chirpy Estrada. Investors will be hoping for lots more pledges of continuity.

Spun off

Through the ups and downs of Benjamin Netanyahu's leadership of Israel, his top spinmeister David Bar-Ilan has shown world-class skills of the New Yorker magazine, which carries a profile of Bibi by veteran Pulitzer-prizewinning journalist David Remnick.

Bar-Ilan's reported comments on Sara Netanyahu - "not the most stable woman in the world" - have stirred up a storm. Netanyahu and his cronies have always denied stories about the first lady's neurotic cleanliness and tendency to fire the home help for burning the soup: the interview provides details to back up the reports.

All the premier's men are rallying around Bar-Ilan's denial that he said any such thing. Remnick is standing by his story, the Israeli press is having a field day and press briefings may never be the same again.

Dane graded

Jacques Delors was in vintage form on his return to Brussels yesterday. The highlight of a scintillating hour-long tour d'horizon came when the former Commission president was asked what would happen if Denmark voted against the treaty of Amsterdam in the May 28 referendum.

The Danes would ask for more opt-outs, he said, if countries kept doing that, the European Union would turn into a "self-service operation" where everyone could pick and choose. That would be the end of the EU.

All good clean stuff until Delors added with a mischievous grin that countries which took this line were like people who like pornographic movies but don't admit it. That raised a few smiles, though perhaps not from the Danes.

Financial Times

100 years ago

Playing "Yankee Doodle"
The great New York Life Insurance office urges on the hounds of war in America, and offers the Government ten million dollars with which to buy big guns and blow the Spaniards to smithereens. Simultaneously in Madrid the same company acts as a recruiting sergeant on the other side by letting all insured Spaniards fight, free of extra premium, against the Americans, but not against any other people. So the great office is playing "Yankee Doodle" with one hand and whatever may be the Spanish war chant with the other.

50 years ago

Germany's Unusual Economy
A man in Berlin wanted to move to Frankfurt, but he knew that no accommodation was available. He arranged therefore for a pre-fabricated house to be delivered from the French zone and erected for him in Frankfurt. The payment was made in electric bulbs, which were manufactured in the Russian zone and were obtained by another exchange transaction. Various middlemen came into the deal at various stages. Much of German economic life is based on this type of transaction.

THE LEX COLUMN

Minority issue

Mopping up minorities is the latest fashion in corporate Europe. Suez Lyonnaise des Eaux did it this week with Société Générale de Belgique; Axa-UAP did it earlier in the month with Royale Belge. Even Pirelli has streamlined its structure.

There is another sign of shareholder value catching on. In the past, especially in France and Italy, the game was to control as big an empire as possible, but owning all of a subsidiary seemed a pointless way of tying up limited capital. Now, though, with the game increasingly about boosting the share price, mopping up minorities often makes sense. Total control makes it easier to drive through industrial synergies; it can also eliminate holding company discounts, as outside investors are often deterred by complicated structures. Moreover, insofar as the company has convinced shareholders that it is pursuing their interests, it does not even need to find the cash to execute the transaction; paper will do the job just as well.

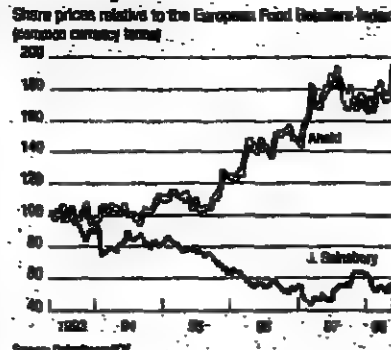
There is much unfinished business. Both Axa and Suez Lyonnaise, for example, have outstanding minorities in some subsidiaries. And when the parent and subsidiary are in different industries - for example, Elf/Eli Sanofi - it would be more sensible to sell out completely than mop up the minority. Moreover, old-style attitudes still linger, particularly in family-controlled groups: Bernard Arnault, Albert Frère and the Agnelli show no sign of abandoning their Chinese boxes.

J. Sainsbury/Ahold

J. Sainsbury may like to believe that the 7 per cent jump in yesterday's share price was down to its brilliant negotiating skills in securing over £275m for its stake in Giant Food. The deal was good, but not that good: earnings are likely to be enhanced by some 1 per cent. In truth, the market's enthusiasm probably owed more to relief that Sainsbury was limiting its exposure to the US market.

It was a mirror image over in Amsterdam, where Ahold was rewarded with a 6 per cent rise in its shares for its plans to buy the whole of Giant. If acquiring Giant makes so much sense for Ahold, why not for Sainsbury? Ahold has spent the last 30 years building up a \$18bn business in the

J. Sainsbury/Ahold



US. Yesterday's bid for Giant may not be cheap: it may take two or three years before the return on the investment matches the business's cost of capital. But it will yield more synergies for Ahold than Sainsbury, whose US business will now have sales of some \$3bn. Sainsbury will now have to explain quite what its US strategy is. Arguably, as of yesterday, it has strengthened the market power of one of its rivals. And a glance at the two companies' relative share price performance indicates Sainsbury investors have less faith in it than do Ahold's in their company. Shareholders in UK retailers hold bad memories of their companies' forays into the US. And Sainsbury's own recent troubles with Shaw's can only have reinforced their disaffection.

Brazil

Brazil has resumed its shaky progress towards fiscal rectitude. Having lost an early vote on key civil service reforms, the government has succeeded in forcing the introduction of a minimum retirement age through Congress. Since some civil servants start drawing full pensions in their mid-40s, this should save a worthwhile sum.

And not before time. Spiralling interest payments and a slowing economy mean the budget deficit is now running at an unexpectedly high 6.5 per cent of gross domestic product. To bring the situation under control, the government will have to pull off the sale of phone network Tele-

bras, set to raise \$30bn, on a tight timetable. And there is already talk of the need for a second round of social security reforms if President Fernando Henrique Cardoso is re-elected in October.

If all goes according to plan, the combination of reform and privatisation should bring down next year's deficit, allowing a cut in interest rates and thus a further deficit reduction. But investors are not betting on such a virtuous circle yet - the troubles in Indonesia are a reminder of Brazil's vulnerability. A measure of the market's scepticism is that real interest rates are still a staggering 30 per cent, despite substantial monetary easing since last autumn's crisis. That is likely to keep the lid on Brazil's stock and bond markets.

Marks and Spencer

When Marks and Spencer's pre-tax profits broke through the £1bn barrier in 1996-97, the super retailer's shares were on a roll. What seems strange now is that it was even thought that such a mature, high-margin business could continue to increase profits at a double digit rate. In the past year, two things have caught up with it: additional competition at home and its, perhaps understandable, caution in expanding abroad. As a result, profits seem stuck at \$1.1bn-£1.2bn until the next millennium, hence the stock's underperformance.

Yet M&S has rightly retained a premium rating to the sector. No one doubts the strategy of increased investment. The lower risk tranche of the spending - including conversion of UK stores bought from Littlewoods - should pay off first. It will be more difficult to milk decent returns overseas, as illustrated by last year's drop in profits outside the UK. Such uncertainty could cause more turbulence in the shares. Another company reporting yesterday, the outdoor Campes Group, says it took a good two years before its transformation into an international player was reflected in the share price. Against this background, and with retail conditions hardly easy in the UK, M&S might be tempted to take the foot off the international accelerator. It should not. Indeed with its minimal debt level, there is a case for bolder expansion, including continental acquisitions.

Posco looks for strategic link with Nippon Steel

Korean group's equity swap plan 'defence against corporate raiders'

By Michiko Nakamoto in Tokyo and John Burton in Seoul

Pohang Iron and Steel Company, the South Korean steelmaker, has proposed an equity swap with Nippon Steel of Japan that could lead to the world's second largest and largest steel companies forming a strategic alliance.

An equity swap between the two largest steelmakers would pose a formidable challenge to other steelmakers, analysts said. "Should Nippon Steel agree to the deal, the two companies can enter into a mutually protective arrangement," it said. The Korean government plans to sell its 33 per cent stake in Posco, partly through a rights issue on the New York Stock Exchange, once privatisation plans are approved by the end of June.

Nippon Steel confirmed yesterday that it had been approached by Posco about the possibility of swapping equity but said such a deal would depend on the Korean govern-

ment's plans for Posco. "There have been discussions but nothing specific has been decided. But we will have to wait and see how [foreign ownership] rules are changed. We have not started formal talks," Nippon Steel said. Foreign ownership of Posco is limited to 30 per cent, which is nearly fully subscribed.

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Russia raises interest rates to 50% in bid to shore up rouble

By Caroline Gell in Moscow

Russia's central bank raised interest rates to 50 per cent yesterday to shore up the rouble following recent pressure on state treasury bonds and the currency.

The move, with an announcement that the government would defend the rouble and was sticking to a stringent monetary policy, appeared to steady nervous markets somewhat.

The benchmark RTS share index, which fell 11.5 per cent on Monday, rose 4 per cent. The rouble steadied at Rhs4.15 to the dollar at the close.

The central bank put up its refinancing rates to 50 per cent from 30 per cent, their highest level since December 1996. It increased its Lombard rate - the rate at which it lends to commercial banks - from 40 to 50 per cent.

The raising of the refinancing rate, which serves as a cap on Treasury bill yields, follows a sharp rise in yields in recent days as investors off-loaded company stocks in favour of government bonds. Sergei Dzh-

min, the central bank chairman, blamed western companies for "speculative attacks" on the rouble and said the government had spent \$500m propping up the currency in the past week.

He did not name any institution but referred to a western investment company, a consultant to the government on distributing eurobonds, which had contributed to the collapse of the securities market and the rouble.

"I want to say straight away, and the government backs me on this, that the government should reconsider its relationships with those institutions which have taken part directly in this," he warned.

Alexander Potemkin, the bank's deputy chairman, said he hoped the interest rate rise would convince investors there was no serious threat to the rouble exchange rate or to monetary policy.

"We are convinced that these actions, our actions in raising interest rates, will one way or another be able to maintain stability on Russian financial markets," he said.

The markets remained nervous, brokers said, but Treasury bond yields came down. Six-month maturity bonds, which were yielding 50 per cent on Monday, were yielding 41.5 per cent yesterday.

The financial crunch is the latest difficulty to hit the newly installed government of Sergei Kiriyenko. It is already under pressure to pay thousands of striking Russian miners. They are protesting against the non-payment of months of wages by blocking the main railway lines in Siberia and the far north.

Mr Kiriyenko is expected to make a speech on the stock market crisis tomorrow.

The central bank's ability to defend the rouble remains the main preoccupation of investors. Far Mellstrom, head of research at Brunswick Warburg, a Moscow brokerage, said: "What the central bank has done, and their statements, show they feel they have time and they are willing to pay the high interest rates. It is in their hands."

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Pakistani opposition leader Benazir Bhutto urged premier Nawaz Sharif to resign for not responding to India's nuclear tests. Nuclear issue, Page 12

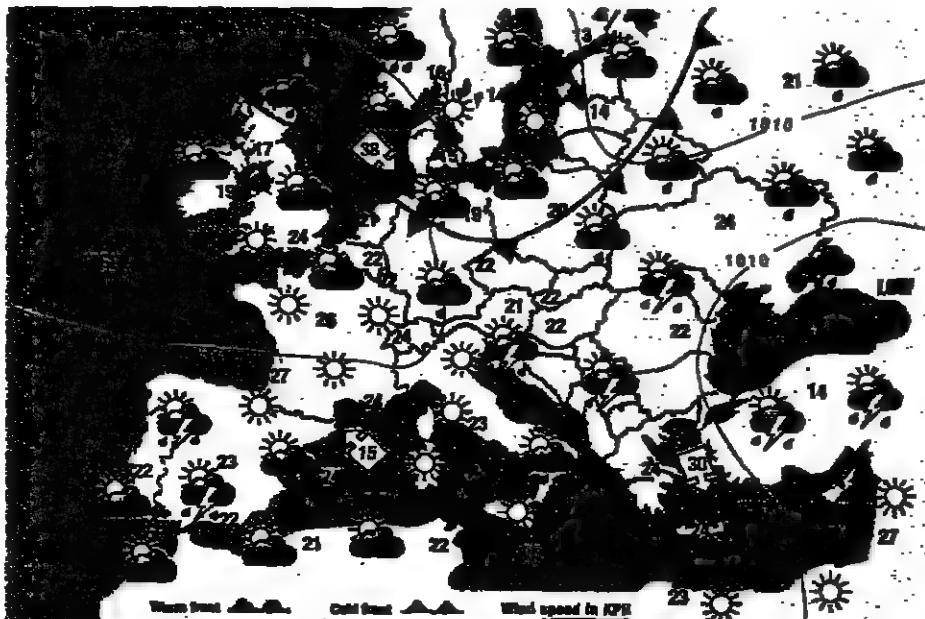
FT WEATHER GUIDE

Europe today

Showers over Denmark should clear, leaving southern Scandinavia bright but cooler. Northern parts of Norway and Sweden will have sunnier and windy showers. Central and north-west Europe will be dry with sunnier, but there may be showers in Germany and over the Alps. Spain and Portugal will remain unsettled with thundery rain in the interior. The central and eastern Mediterranean will be sunny, but southern Italy and the northern Balkans will have showers.

Five-day forecast

The southern half of Scandinavia, will be mainly fine and bright. Central and north-west Europe will be dry and sunny, but showers are possible in Germany and over the Alps. Spain and Portugal will remain thundery. The central and eastern Mediterranean will be sunny, but southern Italy and the northern Balkans will have heavy showers.



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Week 21

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INSIDE

Seagram acquisition as sector faces global sales slowdown

Seagram, the Canadian drinks and entertainments group, is poised to become the world's biggest record company by buying PolyGram, the Dutch group. Although the acquisition, worth more than \$10bn, fulfils an ambition of Edgar Bronfman Jr, Seagram's president, it comes as the sector faces a global slowdown in music sales. Page 18

Tiger acquires taste for noodles

South Korea's once-proud export industries - cars, ships and semi-conductors - are being shunned by foreign investors. Interest has shifted to humble companies such as Nong Shim, a noodle maker. These are favourites among investors because they are practically debt-free. Analysts say traders will concentrate on companies with low debt when the limit on foreign shareholding, now 55 per cent, ends on Friday. Page 36

Bajaj Auto plans computer fightback

India's market for two- and three-wheel vehicles grew last year, but volumes at Bajaj Auto, the country's biggest producer, fell 8.4 per cent. Rahul Bajaj, chairman, aims to fight back by using computer-controlled machine tools to improve quality control and build new models. Page 17

US rate hopes lift Dax to record

Early strength on Wall Street and a growing conviction that the Fed's open market committee would leave US interest rates unchanged sent Frankfurt into record territory. The Frankfurt's Xetra Dax index peaked at 5,448.03 before edging back in late electronic trade to close at 5,417.34, or 1.8 per cent higher, at a record 5,441.00. Page 36

Barrick explains use of hedging

The World Gold Council blames the dramatic decrease in gold prices on the increasing use of hedging. The world's biggest and most effective gold hedger is Barrick Gold of Canada. Peter Munk, its chairman, has indicated why he puts such an emphasis to the practice. Page 28

CME begins Ecu futures trading

Trading in European currency unit futures and options began on the Chicago Mercantile Exchange, the second largest of the US futures exchanges. The move paves the way for eventual trading in the new euro currency. Page 24

Demand for silver in India dries up

Millions of Indians, the biggest consumers of silver, stopped buying the metal towards the end of last year as its price rose on the buying activities of Warren Buffett's Berkshire Hathaway investment group. The Washington-based Silver Institute said imports to India virtually dried up. Page 26

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Ahold in \$2.7bn bid for Giant Food

By Gordon Cramb in Amsterdam, Peggy Hollinger in London and Richard Tomkins in New York

Dutch supermarket group aims to broaden US reach

Ahold, the Dutch-based supermarket group, yesterday moved to broaden its US reach with a \$2.7bn-plus bid for Giant Food, a chain based in Maryland which UK retailer J Sainsbury had previously sought to control.

Giant's operations in Washington DC, Maryland, Delaware and other states would plug a gap in Ahold's activities in north-eastern and south-eastern US. Cees van der Hoeven, president of Ahold, described it as "highly competitive with our other US companies".

The 176 outlets of Giant Food would take the total number of US stores under Ahold control above 1,000. Its existing chains include New England's Stop & Shop and the unrelated Giant Food Stores, based in Pennsylvania.

The disposal of J Sainsbury's 19 per cent stake in Giant, purchased three years ago for just under \$275m (\$458m), comes weeks after Lord Sainsbury, chairman and architect of J Sainsbury's US expansion, announced his retirement.

Giant Food increased sales by 9 per cent to \$4.2bn, but net profits fell from \$85.5m to \$71.2m after the company slashed prices to bring shoppers back after a long strike by truck drivers. It also suffered increasing competitive pressures from discount chains such as Wal-Mart Stores, which has moved aggressively into the groceries business.

Opel chief Herman expected to resign

By Hely Smeeth in London and Graham Rowley in Frankfurt

David Herman, chairman of Adam Opel, is expected today to announce his resignation to a further top management change at the international operations of General Motors.

Mr Herman is expected to be replaced by Gary Cowger, former head of GM's Mexican subsidiary, who was transferred earlier this year to be head of manufacturing at GM Europe.

DuPont to buy Merck's 50% stake for \$2.6bn

By Jeremy Lunn in London

DuPont is to buy out the 50 per cent stake held by Merck in the DuPont Merck pharmaceuticals joint venture for \$2.6bn in the latest move by the US chemicals conglomerate into life sciences.

The pharmaceutical venture, formed in 1991 and with sales last year of \$1.3bn, covered all DuPont's drugs activities with the exception of one business. It will now be drawn into the group's new life sciences division, where it will be known as DuPont pharmaceuticals.

Meanwhile, DuPont said it would take advantage of the full control of its pharmaceuticals business to "ramp up" its pharmaceutical R&D spending from between \$300m and \$400m today "to \$500m in the near future".

It also aimed to apply the R&D and marketing capabilities of its pharmaceuticals operation elsewhere in its life sciences division, with the target of lifting its agricultural biotechnology sales to \$1bn a year by 2002.

The group will post a \$1m R&D write-off following the Merck stake buy-out. This will fall in either the second or third quarter, depending on when the deal is closed.

Mr Landgraf said the buy-out would dilute earnings by 3 to 4 cents a share this year and next year, but would be earnings enhancing by 2000.

Mr Landgraf said the buy-out would dilute earnings by 3 to 4 cents a share this year and next year, but would be earnings enhancing by 2000.

Asset sales list brings Crédit Lyonnais closer to rescue deal

By Samer Iskander in Brussels and Andrew Jack in Paris

The European Commission has received a detailed list from the French government of assets that Crédit Lyonnais, the troubled French bank, will have to sell to gain approval for an estimated FF120bn-FF145bn (\$20bn-\$24bn) state rescue package.

The document clears the final obstacle for approval of the largest state aid package examined by the Commission, which is due to vote on the proposals today.

A Commission official said yesterday that Karel Van Miert, the European Union competition commissioner, was satisfied with the list and was likely to obtain his colleagues' approval for the rescue without debate.

Earlier this year, GM announced it was transferring the headquarters of its international operations to Detroit from Zurich. The international HQ had been moved to Switzerland from the US in 1982 as part of the group's globalisation drive. Recently, however, GM's top US-based management has wanted closer control over its international activities.

The appointment of Mr Cowger had been expected in March. However, press leaks and his reputation as a tough production man intent on cutting costs led to stiff opposition from Opel's workers, who are represented on the company's supervisory board.



BARRY RILEY

Mind the pension gap

What might be called pension fund capitalism is an inadequately explored subject. It may not be a coincidence that rapid growth in US retirement assets (now worth some \$7,000bn) has paralleled the past decade's renaissance of US capitalism.

Right now, too, US and UK institutional funds are playing crucial roles in the transformation of the European corporate sector, in the absence of comparably significant Continental participants. Maybe, too, the relative absence of strong domestic pension funds partially explains the plight of Japan and its Asian neighbours.

It is estimated that pension fund assets will reach \$12,000bn in the top US economies in 2000. How should this vast pile of wealth be managed? A new book explores the subject from the viewpoint of two leading pension consultants: Keith Ambachtsheer, president of KPA Advisory Services, Toronto, and Don Ezra, who runs Frank Russell's European consultancy.

Pension funds are not charities, because they also represent part of the sponsors' employment benefit packages. For a typical North American plan 19 per cent of benefits are effectively paid by contributions, 81 per cent out of the long-term investment returns. If the fiduciaries are too cautious the required level of contributions may rise unacceptably.

Vital importance is attached by the authors to "understanding the pension deal" and "knowing who the pension plan stakeholders are". But a recurring sign of tension is the struggle over the ownership of surpluses. Governments have responded with restrictive legislation. The asymmetry involved may discourage plans from building up surpluses.

For the time being pensions prosper. Yet increased pensions cannot be paid out of a fresh stock market bubble, only out of incremental real wealth. The book's optimistic conclusion about pension fund capitalism is that, if fiduciaries succeed in creating value for their stakeholders, wealth will be forthcoming.

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COMPANIES & FINANCE: ASIA-PACIFIC

JAPAN RESULTS FUEL CONCERNS OVER SECTOR'S HEALTH AND POSSIBLE IMPACT ON BANKS

Building groups report heavy losses

By Gillian Tett in Tokyo

Japan's largest construction companies reported heavy losses yesterday because of restructuring efforts and falling asset prices.

The results will fuel concern about the strength of the sector, where large losses are believed to threaten the financial health of the country's banks.

Big companies such as Kajima, Taisei and Shimizu are thought to be healthier than their smaller rivals, but

all three admitted yesterday that last year's poor economic climate had hurt their results.

Kajima, one of the country's largest construction groups, forecast an extraordinary loss of ¥210bn (\$1.54bn) in fiscal 1998 because of restructuring. This will push it into a ¥180bn parent net loss in the year to March 1999.

Shimizu, the country's largest general contractor, forecast a ¥140bn parent net loss in fiscal 1998 after similar restructuring measures.

It reported a ¥45bn net loss in fiscal 1997 because of ¥20.5bn of losses on equity holdings and a ¥47bn write-off of cancelled construction projects.

Taisei reported a ¥141.25bn extraordinary loss in fiscal 1997 that pushed the group into a ¥112.27bn net loss. This was related to the sale of non-performing property, write-offs of debt receivable and the liquidation of loss-making businesses, it said.

The government recently announced a ¥16,700bn stim-

ulus package to boost the construction industry by raising the level of public investment projects.

However, many groups are weighed down with bad loans incurred after the collapse of the 1990s "bubble" and revenues are falling in the stagnant economy.

Moody's, the US credit rating agency, yesterday warned that it was considering downgrading some construction and financial stocks because of Japan's economic weakness.

Kajima reported that 1997

recurring profit fell 19 per cent to ¥20.35bn, with sales falling 3.6 per cent to ¥1,618bn. Net profit plunged 40 per cent to ¥8bn.

The company announced a three-year restructuring plan to accelerate property sales and liquidate unprofitable units. It will cut the workforce by 1,000 over the next three years from the present 13,550.

Parent sales at Taisei fell 12 per cent to ¥1,865bn because of the weakness of housing demand and cuts in public works spending.

Annual pre-tax profit was ¥25.35bn, 3.3 per cent lower than the previous year.

Shimizu reported a 9.8 per cent fall in pre-tax profits even though sales rose 0.2 per cent to ¥1,474bn.

Obayashi, another large construction group, reported a parent pre-tax profit of ¥23.72bn in 1997, 19.4 per cent lower than the previous year. Sales fell 3 per cent to ¥1,465bn.

For the current year, it forecasts a parent pre-tax profit of ¥23bn on sales of ¥1,560bn.

Further cut in Wharf's ratings

By Louise Lucas in Hong Kong

Standard & Poor's, the US credit rating agency, has downgraded the long-term ratings of Wharf (Holdings), the Hong Kong infrastructure and property conglomerate, for the second time in three months.

Wharf has also been given a negative outlook by the agency.

The downgrade is attributable in part to the economic slowdown in Hong Kong, to which Wharf's high property exposure makes it vulnerable, but also reflects slower than expected progress in the loss-making cable television and telecommunications businesses.

Hong Kong's property and stock markets have borne the brunt of the territory's defence of the currency, which remains pegged to the US dollar after the round of regional devaluations. Wharf's investment properties, which contribute about 70 per cent of net earnings, are mainly in the worst-hit retail and office sectors.

S&P said the slowdown in Hong Kong had hit Wharf's historically conservative financial profile, resulting in weak cash flow coverage and a substantially higher level

of borrowings as interest rates have risen.

Obtaining funds in the current environment, with Japanese and other banks seeking to reduce lending, is also posing problems for some companies.

Wharf says that a number of banks attempted to leap on a recent US court move to ban dealings with banks with US links - a temporary order made as part of an ongoing legal suit over an alleged breach of contract with a US company - as an excuse to recover loans.

The current downgrade, from A- to BBB+, follows the February one-notch downgrade from A.

Yesterday, the ratings agency said return on Wharf's permanent capital, even excluding half of the asset revaluation reserves, was only about 5 per cent in 1997.

"Although Wharf has a sizeable investment portfolio on hand for disposal, its financial flexibility is constrained by thin cash reserves," the agency said.

Management was seeking to reduce gearing by adjusting capital spending, being more conservative on dividends, and disposing of non-core assets.



Casio profits tick up threefold advance

Casio, the Japanese electronics and computer group, ticked off a successful year as a surge in watch sales, especially the G-Shock digital watch (above), helped annual earnings triple to ¥11.7bn (\$86m), writes Alexandra Harney in Tokyo.

The company expected income would rise to ¥15bn this year, on sales up 8.8 per cent to ¥510bn.

The result was also helped by an improvement in its liquid crystal operations and the weak yen. Watch sales, which rose nearly 80 per cent, accounted for 32 per cent of turnover.

Casio's shares closed up 10 per cent yesterday at ¥1,305.

Kimihide Takano, electronics analyst at Dresner Kleinwort Benson, said the trend toward multiple watch ownership - which has buoyed G-Shock sales - would support short-term growth in the domestic

market, but that international sales could drag down profits in the future.

Casio also announced that it was changing its articles of association to buy back up to 72.5m of its shares, equivalent to 26 per cent, and said it would maintain its dividend at ¥12.5. Picture: Pegasus Wildlife

Matsushita Electric to lift European manufacturing

By Paul Abrahams in Tokyo

Matsushita Electric, the Japanese electronics group, plans to increase the proportion of European sales manufactured locally from one-third to two-thirds by the end of the decade.

Seinosuke Kuraku, managing director of Matsushita Electric Europe, said his company needed to reduce imports from Asia because of transport costs and the need to be more flexible in

meeting local consumer demands.

The company, which announces full-year results today, saw a double-digit increase in European sales in the year to March 31, Mr Kuraku said in an interview with the Financial Times. This was despite a contraction in the European consumer electronics market. In the previous year, Europe accounted for about 10 per cent of Matsushita's turnover of ¥7,875bn (\$56bn).

Operations in the region were profitable, although recent investments in eastern Europe have yet to break even. These include a battery plant in Poland, a colour television factory in the Czech Republic and a components supplier in Slovakia. Mr Kuraku hoped these investments would become profitable by the end of the decade.

Next year's European sales were also expected to expand at a double-digit rate. This,

together with the growth in locally sourced products, would be achieved by additional capacity and productivity at existing sites rather than new investments.

European growth for the remainder of the decade would be driven by the new products and the change from analogue to digital, said Mr Kuraku. Currently, only about 50 per cent of Matsushita's European sales were digital, he added.

This sales drive would

include digital video discs. The uptake of this technology had been slower than in Japan or the US, but Mr Kuraku expected a big improvement in the second half of this year. Sales could reach 350,000 units, compared with just 30,000 last year, he said.

Other important products would be DVC Pro - a video product for television studios - and digital television, which was expected to be one of the company's biggest products in Europe this decade.

The introduction of a single currency in the European Union would allow the company to centralise its treasury operations for the founding 11 countries. "Previously, we had to have reserves in 11 currencies, now we need just one," he said.

The treasury would probably be in Amsterdam, even though the European headquarters were just outside London.

NEWS DIGEST

TELECOMMUNICATIONS

Cost-cutting and rising baht lift Thai groups

Thai telecommunications companies reported sharply higher first-quarter profits, attributable to the recent appreciation of the Thai baht, but analysts said operating results at some companies were bolstered by cost cuts that could hurt revenue later in the year.

Total Access Communications, Thailand's second largest mobile telephone network operator, said net profit grew more than tenfold year-on-year to Bt10.1bn (\$258m). Although foreign exchange gains accounted for Bt5.4bn, the company achieved net operating profit of Bt526m in the quarter. That compared with a loss of Bt92m the previous quarter, but was down 43 per cent year-on-year.

Analysts said the company's average revenue per line was falling but the company had cut costs by 37 per cent from the previous quarter, mostly by eliminating marketing promotions, which could affect annual subscriber growth.

United Communication Industry, parent company of Total Access, said its first-quarter net profit increased more than 16 times to Bt7bn.

Advanced Info Service, Thailand's leading mobile telephone network operator, said first-quarter net profit increased 52 per cent year-on-year to Bt1.74bn, with foreign exchange gains accounting for Bt683m of those profits.

AIS saw its operating profit fall 19 per cent to Bt375m on flat revenue, while costs increased. Shinawatra Computer & Communications, parent of AIS, said its net profit increased nearly 10 times to Bt3.8bn.

TelecomAsia, which operates a fixed-line network in Bangkok, swung to a first-quarter net profit of Bt8.7bn, from a loss of Bt440m last time. Foreign exchange gains amounted to Bt9.3bn and the company earned Bt428m from a sale of investments.

Core operations made a pre-tax net loss of Bt1.05bn, a 37 per cent improvement. Merrill Lynch noted that the company cut its promotion expenses from Bt255m the previous quarter to Bt19m. It also saw its interest costs decline 18 per cent.

Thai Telephone & Telecommunication, the fixed line operator in the province, lifted net profit from Bt44m the same period a year ago to Bt2.6bn. Ted Berdicks, Bangkok

ELECTRONICS

Bandai returns to profit

Bandai, the Japanese electronics group that makes Tamagotchi electronic pets, yesterday announced a return to profit after last year's heavy provisions for pulling out of an Internet games machine.

Consolidated net profits were ¥1bn (\$7.3m), compared with a loss of ¥7.98bn on sales 44 per cent higher at ¥288bn. In the previous year, Bandai announced an extraordinary loss of ¥27bn to cover the closure of a joint venture with Apple, the US computer group.

The company predicted profits in the current year would reach ¥3bn on sales down 15 per cent at ¥230bn as enthusiasm for the Tamagotchi waned.

The results were announced after the market had closed, and the shares ended up ¥9, or 0.5 per cent, at ¥1,910. Since April 1996, the shares have fallen more than 55 per cent. Paul Abrahams, Tokyo

Pioneer more than doubles

Pioneer, the Japanese electronics manufacturer, more than doubled net earnings last year after a weak performance the year before. The company expects profits to double again this year.

It also announced it would revise its articles of association to allow it to buy back 47m - or 26 per cent - of its 178.6m shares, at a maximum cost of ¥70bn, to improve its return on equity. It would pay an annual ¥7.5 dividend, up from ¥5 last year. The shares closed up 4 per cent at ¥2,510 on the news.

Net profits in the current year should be ¥12bn, said Pioneer, or a rise up 7 per cent at ¥10bn. The improvement would be based on predicted expansion in domestic and overseas sales, particularly in plasma displays in Japan and cable television boxes in the US.

The figures were helped by cost cuts resulting from an early retirement programme, lower production costs in Asia and higher export sales because of the weak yen.

Net sales rose only 1.3 per cent to ¥560m, mainly as a result of currency gains and car electronics sales. Alexandra Harney, Tokyo

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Higher mobile revenues lift Telecom NZ

"Our market share has declined in a number of marketplaces over the last few years as other companies have established a niche... we know we are going to keep losing market share. The trick is to keep growing volumes fast enough to offset the drop in prices and any drop in margins," says.

But he says: "My competitors will not be sitting on their backside." If necessary, he will use price to win back market share. "Our surplus funds will be more than Rs12bn. If we have to skip a price increase in one year we have the financial muscle to do it."

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COMPANIES & FINANCE: EUROPE

NEWS DIGEST

CHEMICALS

BASF wins approval to buy back 10% of shares

BASF yesterday won shareholder approval to buy back up to 10 per cent of its shares, as the German chemical and pharmaceuticals company warned that falling oil prices had hit revenues in the first quarter.

The share buy-back could lead to BASF returning up to DM5bn (\$2.8bn) to shareholders over the next 18 months. However, the move depends on the successful adoption of new German laws, expected later this year. The buy-back would be important because German law has until now barred companies from buying back their own shares. It would be a further example of greater financial sophistication among German companies, which have become increasingly keen to boost shareholder value.

BASF said yesterday that pre-tax profit rose 13.3 per cent in the first quarter, to DM1.3bn. Sales rose 7.4 per cent to DM14.4bn. Volumes climbed, but prices fell by about 3 per cent, mainly because of weakness in crude oil. BASF has campaigned for the freedom to buy shares so that the company can compete on equal terms with international rivals. A string of German companies, including Metallgesellschaft and SGL Carbon have already said they plan to take advantage of the new laws, which are expected to take effect this summer. At its main shareholders' meeting yesterday, BASF also said it would begin discussions about introducing a stock option scheme for senior management. Several big German companies have begun to introduce such schemes to boost shareholder value and attract international managers. BASF is also considering adopting US accounting standards and listing shares in the US. Graham Bowley, Frankfurt

GERMANY

Merged bank advances 19%

Bayerische Hypo- und Vereinsbank, the big German bank being formed from the merger of two Bavarian banks, raised first-quarter operating profits before risk provisions 19 per cent to DM1.49bn (\$833m). Net commission income advanced 22 per cent to DM847m, helped by the favourable state of capital markets. Securities and custody business, up 34 per cent, accounted for nearly two-thirds of commission income.

Net interest income was 9 per cent higher at DM2.4bn, mainly reflecting a 12 per cent rise in profits from mortgage business to DM1bn. The interest figure included first-time contributions from two acquisitions - FGH Bank of the Netherlands and Germany's Norisbank. Trading profits benefited from buoyant financial markets with an increase of 37 per cent to DM2.33bn. Costs were 8 per cent higher at DM2.03bn.

The results were announced as shareholders of Bayerische Hypo- und Vereinsbank yesterday approved the merger with Bayerische Vereinsbank. Andrew Fisher, Frankfurt

INSURANCE

Alte Leipziger sells BHF stake

Alte Leipziger, the German insurance company, has sold a 6.6 per cent shareholding in BHF-Bank, the medium-sized German bank which was the subject of takeover speculation last year. The shares were placed in the market by J. P. Morgan, the US investment bank, after Alte Leipziger took advantage of the rise in the BHF-Bank share price to sell its 5.8m shares in a block trade to raise DM434m (\$243m).

The shares were bought by German, European and US institutional investors at DM75 each. At the end of last year, they stood at DM51. Andrew Fisher

BANKS

NBG offer oversubscribed

National Bank of Greece, the country's biggest, said yesterday its global offering of 2.5m shares was three and a half times oversubscribed. The share price was set at Dr48,900 following a book-building process at the weekend.

Theodore Karatzas, NBG governor, said the price "was up to expectations, while the placement has put the bank on the international investment map". The issue raised Dr117.2bn (\$379m) for the finance ministry, which will be used to write down government debt. NBG's share jumped 4.5 per cent in heavy trading yesterday to close at Dr51,995.

The offering was revised after the Athens stock exchange agreed to record heights in response to Greece's entry to Europe's exchange rate mechanism. After being scheduled for last November, it was postponed as confidence collapsed in emerging market issues after the Asian financial crisis.

The state's shareholding in NBG has been reduced from 51 per cent to 41 per cent, with international institutions holding 18 per cent. Merrill Lynch and SBC Warburg Dillon Read were joint global co-ordinators for the issue, while HSBC Investment Banking acted as co-lead manager. Kerin Hope, Athens

RETAIL

Blue Square rises 5%

Blue Square, Israel's largest retail group, yesterday reported a 17 per cent rise in sales and a 5 per cent increase in net income for the first quarter. Sales rose to Shk1.23bn (\$336m), while net income climbed to Shk24.1m. Net income last year included a one-off capital gain of Shk5m related to the exercise of warrants in a subsidiary. Revenues from supermarkets rose 16.7 per cent and from specialty stores, 18.5 per cent. This was against 1.2 per cent growth for the quarter in Israel's economy. Judy Dempsey, Jerusalem

UTILITIES RISE IN CROSS-BORDER ACTIVITY AS IVO AGREES MERGER WITH STOCKHOLM ENERGI AND EASTERN GROUP PLANS FINNISH BUY

Nordic power deals intensify shake-out

By Greg Mcivor
in Stockholm

The shake-out of the Nordic power market intensified yesterday when Finland's Imatran Voima won a merger battle in Sweden and Eastern Group, of the UK, appeared poised to buy a large stake in a regional Finnish utility.

In a deal worth SKr1.9bn (\$220m), IVO is to merge its Swedish subsidiary with Stockholm Energi, the country's third largest generator. Separately, Eastern has

provisionally agreed to acquire a minority stake in Savon Voima, based in eastern Finland, for an undisclosed sum. The deal may also include an option to acquire a further stake at a later stage.

Both deals highlight an increasing cross-border dimension in the restructuring which has swept the Nordic power market following its deregulation in 1996.

Large international utilities such as Electricité de France and PreussenElektra of Germany have already

established a presence in Sweden. Eastern would be the first non-Nordic utility to enter the Finnish power generation market.

The IVO-Stockholm Energi tie-up creates a group with combined pro forma annual turnover of SKr12.9bn, lifting it close to the size of Sydkraft, Sweden's second-largest energy group.

Kalervo Nurminen, IVO chief executive, said: "This merger will create a third bloc in the Swedish energy market and will give us the right size to be really com-

petitive." Under the agreement, IVO will in effect pay SKr4.9bn to Stockholm's municipal authority, which controls Stockholm Energi.

The two parties will control a new joint venture incorporating Stockholm Energi and Gullspång Kraft, IVO's Swedish unit. IVO said it would withdraw SKr1.5bn from the combined companies' balance sheet, while Stockholm municipality would remove SKr6.4bn.

Yesterday's tie-ups constitute a double blow to Sweden's Vattenfall, the domi-

nant Scandinavian power utility, which is striving to augment its presence in the region. A SKr1.5bn bid by Vattenfall for Savon Voima was spurned last year.

Last month, Vattenfall launched a SKr2bn bid for Stockholm Energi after IVO's initial merger proposal was scuppered by political divisions within the city.

Those divisions centred on a demand by the controlling Social Democratic party that the city retain a 50 per cent holding in the merged company for four to five years.

The demand was dropped, however, after the SDP won a guarantee from other political parties and IVO for the city to keep a 50 per cent stake in certain key services, particularly district heating, for 15 years following any sale of its stake in the joint venture. The merged group will have 500,000 customers. Estimated synergies were put at SKr3bn annually within four years.

IVO was advised by Salomon Smith Barney and Stockholm Energi by Merrill Lynch.

Recording world in turmoil as merger theme swells

Seagram's planned takeover of PolyGram comes amid a general slowdown in global music sales, writes Alice Rawsthorn

After 10 days of negotiation, Seagram is poised to press ahead with a \$10bn-plus deal to become the world's biggest record company by buying PolyGram, the Dutch entertainment group.

The acquisition fulfils the long-held ambition of Edgar Bronfman Jr, Seagram's president, to establish a powerful presence in the \$38bn international music market. But he is expanding at a turbulent time for the industry, which faces sweeping changes in structure and ownership.

EMI, the troubled UK music group, is unofficially up for sale, which means the future of the three companies responsible for one-third of global record sales is now in doubt, because Seagram's hopes of controlling PolyGram could yet be stymied by an anti-trust investigation in the US.

Warner Music, another of the world's "big six" record companies, is racked by senior management turmoil. And the entire industry faces a slowdown in global sales at a time when consumer taste is increasingly unpredictable, and the growth of digital distribution threatens to destabilise the cosy relationship between record companies and retailers.

These difficulties follow a

buoyant period since the mid-1980s, when record sales doubled thanks to the growing popularity of compact discs and the emergence of fertile new music markets in Asia.

Dynamic independent record labels have flourished. These include Zomba in the US, Beggars Banquet and Creation in the UK, and Japan's Victor and Avex Trax. Yet the chief beneficiaries of rising sales have been the "big six", which has enhanced their profitability by pooling logistical areas of their businesses, such as manufacturing and distribution.

The good times ended in 1996, when European sales slowed and a US price war erupted, forcing thousands of record shops to close. The US market rallied last year, only for Asia to falter. Latin America is showing strong growth, but sales there are too low to compensate for the Asian downturn.

Another problem is that consumers are becoming more fickle. Sales of recent releases by once-bankable stars - such as Janet Jackson, Aerosmith, Paul McCartney, Phil Collins and Bryan Adams - have fallen below expectations. Record labels find it easier to break new acts, thanks to the promotional opportunities created by hundreds of new

magazines, radio stations and TV channels. Yet few new stars seem able to sustain long-term success in the crowded and competitive market, as Oasis, Pearl Jam, Nine Inch Nails and Green Day have discovered.

One consolation is the growing number of teenagers, who are by far the most prolific record buyers (15 to 19-year-olds account for 17 per cent of the \$12bn US music market alone). A new crop of teen-oriented stars has already emerged, including Hanson, Aqua, Natalie Imbruglia and LeAnn Rimes.

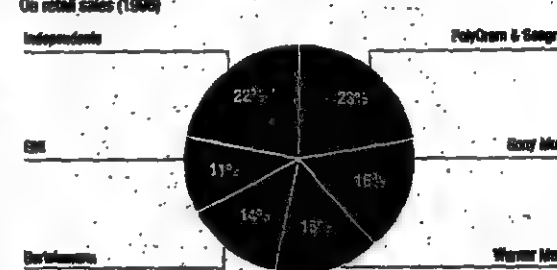
Today's teenagers promise to become a long-term source of record sales by continuing to buy music into middle age, as the first wave of post-war "baby boomers" has done. Yet their buying habits threaten to be even more mercurial, which could create budgeting problems for record labels at a time when marketing costs are escalating.

There is also a strong probability that the young consumers of the future will prefer to have music delivered directly to their computers via digital distribution systems, such as the internet and high-speed cable TV networks, rather than buying it from shops. Record companies should benefit from this trend, which will enable them to

Global value of global music market



Market share on retail sales (1997)



Source: Music Business Association

increase profitability by selling directly to consumers. But at present, the industry lacks the legal and technical safeguards needed to take advantage of digital delivery, and the process of securing them promises to be long and arduous.

In the meantime, pirate juke boxes are posting free copies of new albums and singles on the internet. Unofficial estimates suggest that nearly 2,000 digital pirates are already operating worldwide, with scores of new ones launching each month. The industry is trying to crack down on digital piracy, but it threatens to remain a problem even if record labels succeed in setting up their own properly protected digital systems. Labels may also face opposition from their traditional retail customers, who are likely to object to being bypassed.

There is also a risk of musicians cutting out record companies by releasing their own material over the internet, in digital versions of the independent labels launched in the 1970s by acts such as Frank Zappa and The Grateful Dead.

None of these obstacles has deterred Mr Bronfman's determination to turn Seagram into the biggest of what, he hopes, will be the "big five" multinational music groups. EMI's staff and shareholders are waiting to see whether their company's prospective predators will be as resilient.

Bidders show interest in Rom Telecom share sale

By Kevin Dunn,
East Europe Correspondent

Telecommunications groups from the Netherlands, Italy and Greece have submitted preliminary bids to acquire a strategic shareholding in Rom Telecom, the Romanian state-owned operator.

Telecom Italia has joined forces with KPN Telecom of the Netherlands in one consortium, and a rival bid has been received from OTE, the Greek operator.

The Romanian communications ministry said OTE was planning to form a bidding consortium with SBC Communications, the biggest US local telephone company, alongside Swiss PTT, and it also has minority stakes in the long distance operator in Ukraine and in mobile telephone operations in Ukraine and Hungary.

Telecom Italia and OTE linked last year to become the strategic shareholders in the Serbian telecoms utility. OTE is the strategic investor in Armenia. SBC is bidding for Ameri-

telecom in the US, which is one of the strategic shareholders in Hungary's Matav.

The Romanian government said final offers would be invited from the two consortia in July, with the decision on the strategic partner for Rom Telecom to be made "shortly thereafter".

The privatisation of Rom Telecom is planned as one step leading to the full liberalisation of the telecoms sector in Romania by 2003. The strategic investor will have a monopoly on fixed-line services to the end of 2002.

The second most populous country in central Europe, after Poland, Romania offers attractive growth prospects. However, a strategic investor will have to invest heavily to expand and improve the network, which is one of the most underdeveloped in the region.

Telephone penetration is only about 15 lines for every 100 people, and can fall to as low as 4-5 per cent in rural areas. There is still a waiting list of up to three and a half years for a new line.

Begemann to take over Tulip

By Gordon Grant in Amsterdam

Begemann, the Dutch industrial investment group, plans to take over Tulip Computers, which when it entered receivership last month was Europe's sole independent producer of own-brand PCs.

Under an agreement in principle reached yesterday, the brand will live on. Production, however, will be in the hands of Ingram Micro, the California wholesaler of technology products. Ingram is to take a long lease on the factory opened by Tulip last year in Den Bosch, the southern Dutch town.

Start-up costs at the plant, which has annual capacity of about 1.1m units, contributed to the company's downfall. Under Ingram it will become the second of five "global integration centres", primarily serving computer resellers to which Ingram ships customised and tested systems.

The New York-listed Ingram, which had sales last year of \$16.5bn, said in

March its first such site would be in Memphis, Tennessee.

Begemann has agreed with the receivers that it will fund Tulip's production and marketing costs until June 8, when a deal should be finalised.

In return, it has exclusive rights to "investigate the potential for Tulip to continue trading". This shuts out other potential bidders, believed to include Vobis of Germany, which wanted only the separately held factory.

Tulip's equity position would be strengthened through a share issue giving Begemann a "significant majority holding". This would involve a substantial dilution for existing shareholders.

Tulip, founded in 1979, had sales of F146m (\$320m) last year, when it bought the Commodore brand from receivership. That took it into the fiercely competitive consumer market instead of the business segment on which it had concentrated.

Subject to clearance by US anti-trust authorities, Seagram plans to integrate PolyGram's record labels - which include U2, Jon Bon Jovi, Bob Marley, Pulp and Hanson among their artists - into its Universal Music subsidiary.

It may sell PolyGram's Los Angeles-based film division, which has absorbed \$1.2bn of investment over the past seven years and produced a string of box office hits including *Beavis and Butt-Head*, *Trainspotting*, *Four Weddings and a Funeral* and *Farago*.

At least one European company is understood to have expressed interest in buying the film business, which is the largest European-owned film producer and distributor.

It is still loss-making but expected to break even next year. Selling to a European investor would defuse the risk of Seagram becoming embroiled in a political controversy in Europe if it merged the PolyGram film business into Universal, its Hollywood movie studio.

Edgar Bronfman Jr, Seagram chief executive, has yet to finalise a management structure for the merged music operations. He is understood to have held several private meetings with Alain Lévy, PolyGram's French-born president, in New York last week.

Mr Bronfman is believed to be working on proposals for a new structure including both Mr Lévy, who is highly regarded for his strategic skills, and Doug Morris, the head of Universal Music, noted for his close rapport with artists.

Royal PTT Nederland NV



Announcement

with respect to the intended demerger of the mail-, express- and logistics activities to TNT Post Group N.V.

Royal PTT Nederland NV

having its official seat in Groningen and maintaining its registered office at 9726 AE Groningen, The Netherlands 7 and TNT Post Group N.V.

having its official seat in The Hague and maintaining its registered office at 2595 AK The Hague, The Netherlands 23 announce that the documents referred to in article 2:334a paragraph 1 respectively paragraph 2 of the Netherlands Civil Code, as well as the additional documents prescribed by law, regarding the demerger by Royal PTT Nederland NV of its post-, express- and logistics activities to TNT Post Group N.V. against distribution of shares in TNT Post Group N.V. to shareholders of Royal PTT Nederland NV, are deposited at the Commercial Registers of Groningen and The Hague and also at the above mentioned offices of Royal PTT Nederland NV and TNT Post Group N.V.

Board of Management
Royal PTT Nederland NV

Groningen, 20 May 1998
Suttonsplein 7

Board of Management
TNT Post Group N.V.

The Hague, 20 May 1998
Prinses Beatrixlaan 23

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COMPANIES & FINANCE: THE AMERICAS

NEWS DIGEST

FUEL CELLS

Ballard sees little effect from Daimler merger

Mossadegh Umedaly, chief financial officer of Ballard Power Systems, the Canadian group pioneering fuel cell technology, said yesterday that the recent merger between Daimler-Benz and Chrysler would not significantly affect his company's joint venture with the German company and Ford. Expanding the partnership to include Chrysler would provide additional critical mass for marketing the fuel cell, he said.

He was speaking as Ballard reported a first-quarter loss of \$8.2m (US\$688,000), or 35 cents a share, reflecting increased funding for research and development activities. That compared with a loss last time of \$4.2m, or 28 cents.

Ballard, which has joint ventures with Daimler-Benz and Ford to develop fuel cells, as well as drive and power systems for electric vehicles, said revenues in the quarter fell almost 13 per cent to \$4.8m. Fuel cell demonstration programmes for buses in Chicago and British Columbia had moved from the construction phase to testing stage, contributing to the drop in revenues. Ballard, which formerly produced lithium batteries, has not made a profit since the beginning of the decade, when it focused on the research and development of fuel cells.

The company, which expects to be able to produce fuel cell engines for mass production by 2004, said it had \$151m in cash and short-term investments at the end of the first quarter. Shares in the company fell 80 cents to \$164.20 in early trading. Scott Morrison, Toronto

INSURANCE

Allied faces Nationwide suit

Nationwide Insurance Enterprise intensified its hostile takeover bid for Allied Group of Iowa yesterday, by filing a lawsuit accusing Allied's board of "entrenching itself" and "breaching their fiduciary duties".

The legal action highlights some of the corporate governance issues which are raised by the bid. Highly unusually, Nationwide, which is mutual, is making a hostile bid for Allied, which has a mutual holding company structure, where the company's shares are floated but a stake is retained by a mutual company.

According to Nationwide, which has offered \$1.5bn in cash for the public company, and also wishes to merge the two mutual companies, the board of Allied "wields a virtually unassailable power to control nearly 20 per cent of the voting shares".

It points out that four of the six members of Allied Mutual's board are also officers of the quoted Allied Group. It also accused Allied Group of starting a stock buy-back programme as a "defensive response to Nationwide's offer". John Authers, New York

FOOD

Charge hits Campbell Soup

Campbell Soup said yesterday that its third-quarter loss of \$80m - giving losses of 20 cents a share - reflected the effect of a \$262m restructuring charge. Last time, net income stood at \$167m and earnings amounted to 33 cents. Excluding the charge, Campbell's earnings per share before exceptional items came to 34 cents. This compared with a consensus of analysts' forecasts of 38 cents. Revenues were \$1.67bn, against \$1.54bn last time.

Third-quarter sales of soups and sauces rose 4 per cent to \$1.01bn, with operating earnings, excluding restructuring charges, up 8 per cent to \$243m. Sales in the biscuits and confectionery division rose 2 per cent to \$381m, while operating earnings, excluding restructuring, advanced 3 per cent to \$40m.

The food service division saw sales climb 13 per cent to \$118m. Operating profits here, excluding restructuring, were up a modest 7 per cent to \$13m. The restructuring programme is designed to save \$160m a year. AFX News, New York

RETAILING

Home Depot beats forecasts

Home Depot, a fast-growing US chain of do-it-yourself superstores, beat analysts' forecasts of 43 cents for its first quarter, reporting earnings per share of 45 cents, a rise of 29 per cent over last time's 35 cents. Net income for the quarter advanced 30 per cent from \$258.9m to \$337.3m, while revenues climbed 28 per cent from \$5.75bn to \$7.12bn. AFX News, New York

DuPont ready to open its purse to satisfy biotech vision

US group's acceleration in life sciences has caused a burst of speculation about likely alliances, writes Jenny Luesby

DuPont, lately cast as an industry laggard for its tenacious commitment to both chemicals and life sciences, last week brought satisfaction to Wall Street with the announcement that it is to sell off Conoco, its oil division.

Yesterday, it brought more joy with the \$2.6bn buy-out of Merck's stake in the two companies' 50:50 pharmaceutical joint venture.

But far from signalling DuPont's acceptance of the gains to shareholders from a break-up of the chemicals conglomerate, these moves are part of a quite different scheme. For what DuPont plans is a glide from chemistry to biology, in which all of its remaining businesses have a role to play, or so it claims.

Under the direction of its youngest ever chief executive, 49-year-old Chad Holliday, who took over seven months ago, DuPont has developed a vision that, if realised, would leave it without peers in the field of biotechnology.

Mr Holliday aims to expand the group's life sciences division, carved out last month, from 30 per cent of group sales today to 35 per cent by 2002.

In line with this, he has announced a rapid acceleration in life science investments. DuPont is not unusual in this. But it does have a larger purse than its rivals, with Conoco alone estimated to be worth more than \$20bn.

This has caused a burst of speculation about likely targets for alliances, with Monsanto touted as an exquisite bolt-on.

Zeneca, of the UK, is also viewed as a possible match, which seems more possible.

Once at the head of the agricultural biotech pack, Zeneca experienced a change of heart some years ago and best a retreat. Its interest has since revived, but it is now questionable whether it can realistically compete with DuPont, Monsanto and Novartis.

Meanwhile, it would satisfy DuPont's need to enhance its pharmaceutical operation, over which it will now have full control for the first time in seven years.

The chances of a Monsanto tie-up are harder to call. Few believe such an alliance could secure approval from US competition authorities. In agricultural biotechnology, Monsanto specialises in input traits, making plants easier

California-based investment firm, is not so sure. "Putting the two together looks good on paper but it would be a match built around biotechnology, an area where corporate culture really matters, not just because it is a business based on intellectual property, but more importantly because these businesses are still being created."

Such a culture clash might be considerable in light of the novelty of DuPont's vision for its biotech development.

Unlike Monsanto, Novartis and Zeneca, DuPont has no plans to divorce its life science and chemicals businesses. In last month's restructuring it set up two chemicals divisions differentiated, or branded products, which will include busi-

As one industry expert says: 'DuPont is aiming to shift the basis of the chemicals economy from hydrocarbons to carbohydrates. Just imagine what that will mean for the industry's raw materials: renewable, cheaper and clean.'

nesses such as Lycra and Kevlar, and the Foundation division, which will hold the group's bulk chemicals.

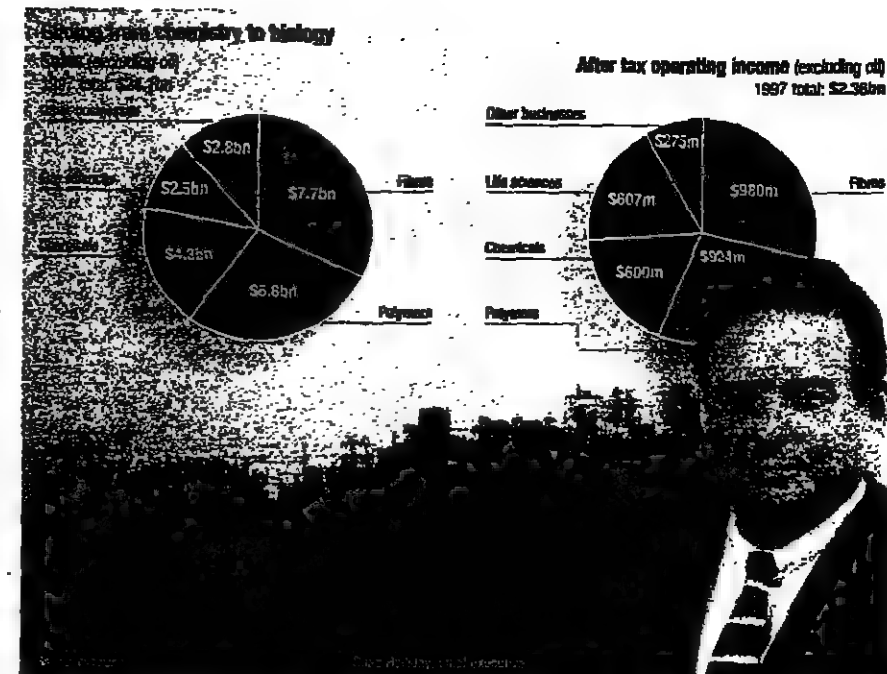
It seems certain that some of its chemical businesses, even some in core areas, will be sold as the group shifts to biology. But the group appears determined to retain an overall structure that will see chemicals supplying both the cash and the marketing skills to expand life sciences.

This commitment to cash flow from chemicals runs

subjected companies to the rollercoaster of biotechnology investor sentiment.

On the marketing side, however, the DuPont vision is clear cut. The group has repeatedly broken ground with its marketing efforts within chemicals, most notably with its links with textiles and clothing manufacturers and even retailers to promote and differentiate Lycra.

It now plans to do the same in life sciences. On the agricultural side, it has



already acquired 30 per cent of seed company Pioneer Hybrid International as a way of getting its seeds to farmers. A 16-year standstill agreement means it is unlikely to buy the rest. But it has bought all of PTI, the soy processor, to expand the take-up of its genetically modified soy, and is "actively interested" in similar deals for wheat and corn.

In the meantime, it has struck agreements with both Cargill and Continental Grains for the processing and handling of genetically modified grain.

"The business system just does not exist for distinguishing branded products in these markets, so we are constructing it," says Michael Ricciolo, head of DuPont's agbio enterprises.

Mr Shimoda characterises this element of DuPont's strategy as "a web of structural business relationships" to capture as much value as possible from the farm to the market.

But there is more. DuPont also sees a role for biotechnology in renewing its chem-

ical businesses. "We believe we are going to be able to use genetically adapted plants to produce fibres and polymers as well as drugs," it says.

The group already has smart materials in the pipeline, some of them just two to four years from commercialisation. Says one star-struck industry expert: "DuPont is aiming to shift the basis of the chemicals economy from hydrocarbons to carbohydrates. Just imagine what that will mean for the industry's raw materials: renewable, cheaper and clean."

Investors are less excited but they are getting interested. DuPont's refusal to abandon its conglomerate status has seen its rating running well below the S&P Composite index, but since October, and the arrival of Mr Holliday, the share price has risen more than 50 per cent.

But even if his vision is realised without a stumble, it will be years before the DuPont caterpillar truly emerges as a butterfly.

Kodak and AOL unveil online photography tie-up

By Richard Waters in New York

Eastman Kodak's renewed foray into digital photography picked up momentum yesterday as it announced an alliance with America Online, the largest online services company.

News of the venture, which will make it possible for AOL customers to have copies of their photographs delivered to their PCs, helped boost shares in the online company by nearly 5 per cent in early trading, as investors hoped it would provide another source of revenue for the fast-expanding company.

The alliance echoes recent moves by Eastman Kodak to kick-start its expansion into the digital world. Earlier

attempts resulted in losses from digital products last year of \$400m and a rethink by George Fisher, chairman, about how the company should move beyond the traditional world of silver halide film on which its business was founded.

Under the service unveiled yesterday - known as "You've got pictures!" - AOL customers would enter their online account number on a standard Kodak form when sending a film to be developed. The pictures could then be viewed online by clicking on a special icon on the AOL service.

The scheme is similar to a recent agreement between Kodak and Intel, which will include a service allowing customers to receive their pictures on CDs, as well as

in traditional print form.

For Kodak, both services reflect a partial change of direction in its expansion into digital photography. The company has scaled back spending on digital cameras, which capture images electronically, and put more emphasis on finding simple ways of transferring images taken with traditional film on to computers.

Kodak maintains that consumers would still want prints of their pictures even if they can view them on a computer screen. The service with AOL will also include a way for users to order reprints or enlargements by e-mail, as well as merchandise such as mugs and t-shirts printed with their pictures.

Symantec joins IBM in anti-virus marketing

By Paul Taylor

Symantec, the PC anti-virus software maker, and IBM, the US international Business Machines are to jointly market a new family of anti-virus products aimed at the corporate market under the Norton AntiVirus brand.

Under the terms of the agreement announced yesterday, Symantec will license IBM's "immune system" technology and combine it with its own technology to produce a range of new products designed to support secure electronic commerce.

IBM, which has assigned its existing anti-virus customer contracts to Symantec, will recommend the new products to its corporate customers and the two companies will sell and market them worldwide.

Symantec's existing anti-virus products are mainly aimed at the retail market, and the link with IBM should help the software group to expand its customer base in the corporate market.

"This will help build our position in the corporate world," said Gordon Eubanks, Symantec's chief executive.

In a related move, Intel, the US chipmaker, said it would incorporate IBM's anti-virus technology in Intel's LANDesk network management products.

Deere reaps benefit of strong US farm sector

By Nicki Tait in Chicago

A solid US farm economy helped John Deere, the US manufacturer of tractors and agricultural equipment, to beat analysts' expectations comfortably when it announced after-tax profits of \$365.2m for the second quarter to end-April.

The result translated into fully diluted earnings per share of \$1.45, up from \$1.34 in the same period a year earlier and well ahead of the average \$1.40 forecast.

The second-quarter profit was scored on sales 16 per cent higher at \$4.07bn, bringing the total for the first six months to \$5.92bn. Profits for the first half of the year now stand at \$568m, a 15 per cent improvement on the same period a year ago.

Deere said that it had seen "strong retail demand" in its core domestic market, and overseas sales had remained at "favourable levels", although these were affected by currency movements and had been slightly lower than in the previous year.

"Overall, fundamentals of the farm economy are sound and the demand for farm equipment is expected to remain favourable," Deere commented. It predicted an increase of between 10 per cent and 12 per cent in sales volume for 1998 overall, with third-quarter volumes up by between 10 per cent and 14 per cent.

CZECH & SLOVAK INVESTMENT CORPORATION INC.

NOTICE OF MEETING OF WARRANTHOLDERS

NOTICE IS HEREBY GIVEN that a MEETING OF WARRANTHOLDERS of Czech & Slovak Investment Corporation Inc. (the "Fund") will be held at 3.30 p.m. (Jersey time) on 11th June, 1998 at the offices of Robert Fleming Management (Jersey) Limited at Queen's House, Devon Road, St. Helier, Jersey JE2 4QD, Channel Islands, for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an extraordinary resolution:

Extraordinary Resolution

THAT the Fund be authorised to reduce the number of its issued shares in the manner set out in the circular dated 18th May, 1998 (the "Circular"), a copy of which Circular is produced to this meeting and initialed by the Chairman for the purpose of identification.

Registered Office:
Upfield House,
P.O. Box 309,
Grand Cayman Street,
Grand Cayman,
Cayman Islands,
British West Indies
18th May, 1998

By order of the Board
John Frederick Dyke
Secretary

Notes:

(i) Copies of the Circular will be available from this date at the registered office of the Fund or Morgan Guaranty Trust Company of New York (Attention: Patricia Davern) at Avenue des Arts, 35, B-1040 Brussels, Belgium (the "Share Agent") or Euroclear (Attention: International Custody Department Telephone: 32 2 234 44 00) or Credi Bank, société anonyme, (Attention: Angela Miroslav) at P.O. Box 1006, 67, Boulevard Grande-Duchesse Charlotte, L-1010 Luxembourg or ING Barings Securities Limited (Attention: Mark Robinson) at 60 London Wall, London EC2M 5TQ, England.

(ii) Voting certificates for warrant-holders, including those warrant-holders who do not wish to attend and vote at the meeting and who wish to appoint a proxy, will be issued to warrant-holders by Morgan Guaranty Trust Company of New York or Credi Bank, société anonyme each at the above address. Voting instructions must be sent to Morgan Guaranty Trust Company of New York (Attention: Patricia Davern) at the above address, so as to arrive no later than 3.30 p.m. (Jersey time) on 9th June, 1998.

(iii) Two persons holding voting certificates and representing in the aggregate holders of not less than 50 per cent of the warrants for the time being remaining exercisable will constitute a quorum for these purposes. To be passed as an extraordinary resolution, a majority consisting not less than three-fourths of the votes must be cast in favour of the resolution either in person or by proxy.

CZECH & SLOVAK INVESTMENT CORPORATION INC.

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of Czech & Slovak Investment Corporation Inc. (the "Fund") will be held at 3.00 p.m. (Jersey time) on 11th June, 1998 at the offices of Robert Fleming Management (Jersey) Limited at Queen's House, Devon Road, St. Helier, Jersey JE2 4QD, Channel Islands, for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

Ordinary Resolutions

1. THAT the Fund be authorised to repurchase its own shares in the manner set out in the circular dated 18th May, 1998 (the "Circular"), a copy of which Circular is produced to the meeting and initialed by the Chairman for the purpose of identification.

2. THAT the proposed innovative scheme and the proposed amendments to the investment management agreement of the Fund each in the form produced to the meeting and initialed by the Chairman be and are hereby approved and that the directors of the Fund be and are authorised to take any action as they consider necessary to give effect thereto.

Registered Office:

Upfield House,
P.O. Box 309,
Grand Cayman Street,
Grand Cayman,
Cayman Islands,
British West Indies
18th May, 1998

By order of the Board
John Frederick Dyke
Secretary

Notes:

(i) Copies of the Circular will be available from this date at the registered office of the Fund or Morgan Guaranty Trust Company of New York (Attention: Patricia Davern) at Avenue des Arts, 35, B-1040 Brussels, Belgium (the "Share Agent") or Euroclear (Attention: International Custody Department Telephone: 32 2 234 44 00) or Credi Bank, société anonyme, (Attention: Angela Miroslav) at P.O. Box 1006, 67, Boulevard Grande-Duchesse Charlotte, L-1010 Luxembourg or ING Barings Securities Limited (Attention: Mark Robinson) at 60 London Wall, London EC2M 5TQ, England.

(ii) Voting certificates and, for shareholders who do not wish to attend and vote at the meeting and who wish to appoint a proxy, voting instructions will be issued to shareholders by the Fund or Share Agent upon deposit at the registered office of the Fund or the office of the Share Agent of either (i) bearer certificates representing ordinary shares in the Fund or (ii) a certificate from a bank to the effect that such bearer certificates have been deposited with it and they are held to the order of the Share Agent until after the time at which the voting rights in respect of which the instructions are given may be exercised or (iii) a notice that Credi Bank, société anonyme or the Euroclear System has been instructed to hold such bearer certificates to the order of the Share Agent before 3.00 p.m. (Jersey time) on 9th June, 1998. Voting instructions must be deposited at the offices of the Share Agent (Attention: Patricia Davern), or sent by telex or SWIFT to the Share Agent (Attention: Patricia Davern) by 3.00 p.m. (Jersey time) on 9th June, 1998.

(iii) Two members present in person or by proxy and entitled to vote will constitute a quorum for all purposes. To be passed as an ordinary resolution, a majority of votes must be cast in favour of the resolution either in person or by proxy.

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BE OUR GUEST

COMPANIES & FINANCE: UK

PHARMACEUTICALS COMPANY SEEKS 'STRATEGIC ALLIANCE' IN US TO SELL ITS MARIMASTAT ANTI-CANCER DRUG

British Biotech chief executive resigns

By Jonathan Guthrie

Keith McCullagh is to resign as chief executive of British Biotech in the wake of investors' concerns that the company mismanaged its response to damaging disclosures by the head of clinical trials, who was sacked last month.

Mr McCullagh fired Dr Andrew Millar for sharing his concerns about the progress of drug trials with investors. His disclosures led

to accusations that the company, formerly the flagship of the UK biotechnology sector, had deliberately misled shareholders with over-optimistic statements on the trials, which are vital to commercial success.

British Biotech's unwillingness to counter the suggestions infuriated investors. Perpetual, the investment manager with a 9.5 per cent stake in the company, suggested it might seek an extraordinary meeting of

shareholders to consider removing Mr McCullagh.

The company said Mr McCullagh would step down at the annual meeting on September 23. John Raisman, chairman of British Biotech, said: "He has done nothing dishonourable; he judges it in the best interests of shareholders."

Mr McCullagh said he reversed a decision to stay on "in the light of consultation with colleagues on the board, shareholders and

external advisers".

The company also said it was seeking a "strategic alliance" with a big US pharmaceutical company to sell its blockbuster anti-cancer drug marimastat, which is still at trial stage in the US market. It said "exploratory discussions" began this year. Directors said the alliance could include a partner taking a stake.

The company, which had been attacked by Dr Millar for "extravagant" spending

plans, said it would make 42 staff redundant as part of a review that preceded his dismissal. Combined with a hiring freeze, this will reduce the head count by 14 per cent from a peak in February of 450. Malcolm Fallon, finance director, said future costs would be far lower than analysts' forecasts. The company had cash of £132m at the end of April, expected to fund operations for at least three years.

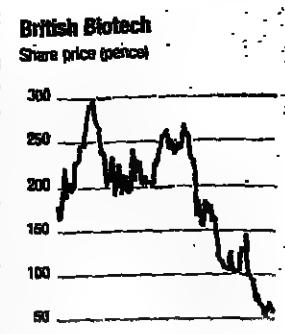
The company yesterday

published a detailed circular to shareholders intended to disprove suggestions of wrongdoing against the board prompted by Dr Millar's disclosures. Bob Murray, chief investment officer of Perpetual, said his worries about the company were largely assuaged by the circular, the cost-cutting and the impending departure of Mr McCullagh. The shares rose 4 per cent in early trading but closed 5 per cent down at 59p.

COMMENT

British Biotech

A salvage operation is at last in full swing at British Biotech. Keith McCullagh is resigning as chief executive - not that he is admitting to anything, even over-optimism on drugs' prospects. Still, one must assume a new face will carry more credibility. A refreshingly conservative tone has been introduced into the account of ongoing trials. And the company, once wanted to go it alone in North America, is now actively seeking a big brother partner: it badly needs endorsement from an industry bastion. As for the whistle-blower, Andrew Millar, he will not be a candidate for the chief executive's job. As usual in such assaults, the value of exposure has been diluted by damage to the company's reputation. Investors now have only themselves to blame for any more over-exuberance about the stock.



ABPorts bid for American Ports

By Jonathan Ford

Associated British Ports, the UK's largest ports operator, yesterday launched an agreed bid worth £108m (\$177m) for American Ports Services, a London-listed company which operates car terminals at four US ports.

ABPorts is offering 190p cash for each APS share. This represents a premium of 15 per cent to the closing price on Wednesday May 6.

the day before the companies announced they were in talks.

Shares in APS climbed 6p to 186p, while shares in ABPorts fell 2p to 36p.

APS directors have agreed to sell their 4.4 per cent stake to ABPorts. Jacobs Holdings, the shipping and ports group which has a 10 per cent stake, said it intended to accept the bid.

ABPorts is being advised by Dresdner Kleinwort Ben-

son and APS by Close Brothers.

The deal is ABPorts' second move since completing a strategic review in March. On Monday it announced the purchase of Excor, a private company which owns a roll-on-roll off terminal at Immingham, Humberside, for £15.8m.

APS operates six specialist terminals in the US which handle the import and export of cars. It recently

entered a joint venture to develop a seventh terminal at Zeebrugge in Belgium. APS also manages two US airports.

The company, floated three years ago, warned in December that profits would fall after car exports through its Californian facility at Benicia slowed because of the Asian financial crisis. It reported a fall from £7.2m to £5.3m for 1997 on sales 33 per cent up at £27.5m.

Nikko Europe wins auction for Roadchef

By Simon Davies

Roadchef, the UK's third largest motorway service station operator, was yesterday sold to the principal finance arm of Nikko Europe for £174m (\$290m) including debt, compared with initial expectations of about £150m.

The deal will leave Roadchef's largest shareholder, Tim Ingram Hill, with 27.2m of cash and an equity stake in the buy-out company valued at £12.5m.

It follows Nomura International's principal finance arm, the holding group, and they will provide the vision on how to expand the business," said Mr Howard.

The Japanese bank plans to refinance a portion of its acquisition costs by issuing asset-backed securities, in three or four months' time. This will follow the pattern set by Investcorp, the Bahrain-based investment group, which paid \$476m for Welcome Break, the UK's second-largest service station group, and financed it through the bond market last year.

Mr Ingram Hill said Roadchef had been held back by its financial resources, compared with those of Welcome Break and Granada. The group operates 12 sites, and three under development.

Keith Howard, managing director of Nikko's principal finance group, said his team had done extensive due diligence, including examining environmental liabilities. These had been suggested as another reason Nomura reduced its offer, but he was adamant they had found little cause for concern.

Nikko is taking the existing management, which bought out Roadchef in 1983, and will retain 25 per cent of the new company. "We will provide capital, and structural finance products, and they will provide the vision on how to expand the business," said Mr Howard.

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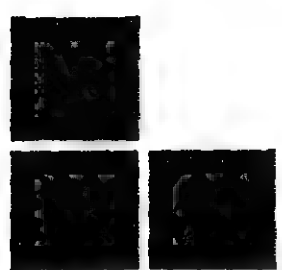
RESULTS

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Adventures Asset	8 mths to Mar 31	25.7 (10)	3.99 (3.29)	1.74 (2.69)	1.8	July 1	1.29	-
Berkshire	6 mths to Mar 28	291.3 (261)	21.7 (38.9)	13.4 (24.1)	3.2	June 17	2	6.5
Bracebridge	Yr to Dec 31	1.79 (0.139)	0.762 (0.163)	4.31 (1.05)	-	-	-	-
British Energy	Yr to Mar 31	1,864 (1,886)	276 (332)	28.8 (71)	9.8	July 28	9.1	14.7
Buckland Investments	Yr to Mar 31	18.8 (15.4)	1.41 (1.02)	4.51 (3.01)	0.5	July 1	0.4	-
Care UK	6 mths to Mar 31	44.5 (37.5)	3.89 (1.78)	17.49 (11.39)	9	July 1	9	13.4
Chatterfield Property	Yr to Dec 31	2,013 (1,718)	67.8 (66.4)	14.81 (12.9)	5.5	Aug 28	5.1	-
Compass	6 mths to Mar 31	4.16 (4.04)	0.534 (0.113)	0.74 (0.18)	-	-	-	7.8
Deasys	6 mths to Mar 31	35.9 (23.5)	6.75 (6.16)	8.2 (9.9)	2.8	July 3	2.5	-
Edinburgh	6 mths to Mar 27	474.3 (587.7)	65.5 (57.5)	17.55 (15.55)	7.2	July 3	6.7	16.71
Highland	Yr to Mar 31	35.5 (10)	2.5 (1.06)	10.81 (6.7)	0.8	July 22	-	1.2
Horwath	6 mths to Mar 28	24.3 (22)	2.08 (3.07)	5.9 (8.5)	3.4	July 16	3.4	-
Imperial Tobacco	6 mths to Mar 28	2,005 (1,944)	146 (143)	18.6 (18.8)	7.6	Aug 14	7.2	-
Jarvis Porter	Yr to Feb 28	101.2 (95.4)	14 (10.4)	20 (14.8)	3.3	July 29	9	7.8
Marshall & Spencer	Yr to Mar 31	8,243 (7,942)	1,109 (1,102)	25.1 (25.7)	10.7	July 31	9.3	14.3
Merchant Retail	Yr to Mar 28	67.4 (60.3)	3.04 (1.77)	2.81 (1.43)	0.4	Aug 1	0.25	0.25
Metrolink	24 wks to Mar 27	17.8 (16.8)	2.82 (2.09)	8.5 (8.05)	2.1	Aug 10	-	1.8
Newsquest	14 wks to Apr 9	76.5 (71)	17.3 (8.02)	- (1)	-	-	-	-
Reifel	Yr to Dec 31	2.95 (3.82)	1.03 (0.52)	2.47 (0.14)	-	-	-	21
Royal Sun Alliance	3 mths to Mar 31	2,417.2 (2,302.7)	364 (289)	0.7 (0.7)	-	-	-	-
SFS Upstream	6 mths to Mar 31	14.4 (10.3)	1.59 (1.1)	2.85 (2.1)	1.1	Aug 5	-	-
Silence	6 mths to Apr 3	11.1 (10.8)	0.282 (0.401)	1.69 (2.51)	1.45	Aug 26	1.45	-
Turkish	6 mths to Mar 31	41.3 (38.8)	2.86 (3.09)	5.5 (6)	1.85	July 9	1.85	-
Warwick Inns	Yr to Dec 31	12.3 (12.5)	0.13 (0.86)	16.36 (16.33)	5	Oct 5	1	7.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. Foreign income dividend. *Includes PD element. †On increased capital. ‡On reduced capital. @Am stock. *Special of 10p also proposed. @Comprehensive for 13 weeks. †British currency. ‡Net premium.

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States or to U.S. persons except in accordance with the resale restrictions applicable thereto. This announcement appears as a matter of record only.

March 1998



SANLUIS

SANLUIS Corporación, S.A. de C.V.
(Incorporated in the United Mexican States)

U.S. \$200,000,000
8.875% Notes due 2008

Chase Manhattan International Limited

Banco Nacional de México, S.A.
Donaldson, Lufkin & Jenrette
HSBC Markets

Credit Suisse First Boston
Dresdner Bank Lateinamerika AG
Salomon Smith Barney International



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NOTICE OF DEFAULT TO HOLDERS OF

JTS Corporation
(formerly Atari Corporation)
5% Convertible Subordinated Debentures
Due April 29, 2002
(the "Debentures")
CUSIP Number 465940 AA2
(formerly 046515 AA6)

NOTICE IS HEREBY GIVEN

to all holders of the Debentures that JTS Corporation (the "Company") has not made the April 29, 1998 interest payment on the Debentures. This event constitutes a Default under the terms of the Indenture dated as of April 29, 1987 between the Company and Bankers Trust Company, as successor trustee to Security Pacific National Bank. If the interest payment is not made by May 25, 1998, the event will constitute an Event of Default under the terms of the Indenture.

Upon occurrence of an Event of Default, under Section 6.02 of the Indenture, Holders of 25% or more of the Debentures may declare the principal and accrued interest to be immediately due and payable by giving notice to the Company.

Pursuant to Section 6.05 of the Indenture, Holders of a majority in aggregate principal amount of the outstanding Debentures may direct the time, method and place of conducting any proceeding for exercising any right or remedy available to the Trustee.

If you have any questions or wish additional information with respect to the matters described above, please contact Stanley Berg, Bankers Trust Company, Four Albany Street, New York, New York 10006 (212) 250-6626.

Bankers Trust Company
as Trustee
Dated: May 20, 1998

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TriGem Computer, Inc.

(Incorporated in the Republic of Korea with limited liability)

Notice of a Meeting of Holders of

U.S. \$30,000,000
3 1/2 per cent. Convertible Bonds due 2005

of TriGem Computer, Inc.
(Redeemable at the option of the Bondholders in 1998 and 2000)
(the "Bonds")

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Bonds (hereinafter referred to as the "Bondholders") of TriGem Computer, Inc. (the "Company") will be held at the offices of TriGem Computer, Inc., 43-2 Hwangnam-dong, Yongsang-gu, Seoul 150-010, Korea on 11th June, 1998 at 10:30 a.m. (Seoul time) to consider and, if thought fit, pass the following resolutions, which may be proposed as an Extraordinary Resolution.

EXTRAORDINARY RESOLUTION
That the meeting of holders of U.S. \$30,000,000 3 1/2 per cent. Convertible Bonds due 2005 (the "Bondholders") of TriGem Computer, Inc. (the "Company") do hereby resolve that the Company shall be entitled to exercise its right to redeem the Bonds on 11th June, 1998 at 10:30 a.m. (Seoul time) to consider and, if thought fit, pass the following resolutions, which may be proposed as an Extraordinary Resolution.

- Conditional upon the Company's agreement to give the Amended Second Put Option (as defined below), and save to the extent specified in paragraph 3 hereof, the satisfaction of the Second Supplemental Trust Deed dated 23rd April, 1998 under the Company and the Trustee.
- Save to the extent specified in paragraph 3 hereof, to the satisfaction of the Bondholders' option to require the Company to redeem or repurchase the Bonds on 4th June, 1998 (the "Second Put Option") granted under the First Supplemental Trust Deed dated 23rd April, 1998 under the Company and the Trustee.
- Conditional upon the Bondholders who have exercised the Second Put Option being paid on an installment basis as of 1st July, 1998 and 1st January, 1999 respectively at an amount equal on each date to one half of the Put Premium (as defined below), to the satisfaction of the Bondholders' right to the 30.78% per cent. of the principal amount of the Bonds (the "Put Premium") which would have been payable on 4th June, 1998 upon exercise of the Second Put Option as to the Bonds who have exercised the Second Put Option.
- Assent to the granting of a put option to the Bondholders in the terms set out in the draft Third Supplemental Trust Deed proposed to this meeting and installed by the chairman for identification purposes subject to such amendments as the Trustee may require to require the Company to redeem or repurchase the Bonds on 4th June, 2000 (the "Amended Second Put Option") for a price equal to 2 year US Dollar LIBOR swap rate, which shall be determined on 28th May, 1998 plus five hundred and sixty five (565) basis points (the "Amended Second Put Price"). The Amended Second Put Price will be calculated based on applying the present value as 100 per cent of the principal amount of the Bonds. Interest payable on the Bonds will be 3 1/2 per cent. (per annum 303/60) of the principal amount of the Bonds payable on 31st December of each year until the maturity of the Bonds.
- Sanction every alteration, amendment, waiver, modification, compromise or arrangement made by the Trustee in respect of the rights of the Bondholders and the Company against the Company including the Trustee exercising its discretion to give notice to the Company that the Bonds are due and payable upon the occurrence of an Event of Default or upon a Breach of Default if the Company fails to pay the sum due to the Bondholders who have exercised the Second Put Option on the due date or for 14 days thereafter; and
- Authorise and request the Trustee to execute the amendments referred to in paragraphs (1), (2), (3) and (4) of this resolution and in order to give effect to such amendments, to execute the Third Supplemental Trust Deed in the form of the draft proposed to this meeting and for the purposes of identification signed by the chairman of it with such amendments (if any) to it as the Trustee shall require.

The intention of the Bondholders is particularly to give effect to the terms of the Second Put Option and the Amended Second Put Option as set out in paragraphs 1 and 2 above. Having regard to such requirements, the Bondholders are particularly requested either to take steps to be represented at the meeting, as referred to below or to attend in person.

In accordance with usual practice, the Trustee expresses no opinion as to the merits of the proposals as presented to the Bondholders and, in relation to the Bonds, the Trustee has not been involved in formulating the proposals and recommendations. Bondholders who are in any doubt as to their position should seek their own professional advice.

AVAILABILITY OF DOCUMENTS
Copies of the Trust Deed dated 4th June, 1991, the First Supplemental Trust Deed dated 2nd April, 1996 and the Second Supplemental Trust Deed dated 23rd April, 1998 may be inspected during normal office hours, and voting certificates may be obtained from the specified office of the Paying Agent given below. A debt of the Third Supplemental Trust Deed may be inspected at the specified office of the Paying Agent from 22nd May, 1998.

VOTING AND QUORUM

- A Bondholder wishing to attend and vote at the meeting and any adjourned meeting in person must produce at the meeting either his Bond(s), or a valid voting certificate or certificate issued by the Paying Agent relating to the Bond(s) in respect of which he wishes to vote.
- A Bondholder not wishing to attend and vote at the meeting in person may either deliver his Bond(s) or voting certificate(s) to the person whom he wishes to attend and vote on his behalf or give a voting instruction form (as set out in the instructions from the specified office of the Paying Agent) instructing the Paying Agent to appoint a proxy and vote on the meeting in accordance with his instructions.
- Bond(s) may be deposited with a Paying Agent or to the order of a Paying Agent with a bank or other depositories nominated by the Paying Agent in order to give effect to the instructions of the Bondholder in relation to the Bonds. Once a Paying Agent has issued a voting certificate, the Bond will not be released and either the certificate has been cancelled or the voting certificate has been surrendered to the Paying Agent.
- The quorum required at the meeting is two or more Bondholders or persons present representing in the aggregate the holders of not less than 66 2/3 per cent. in principal amount of the Bonds for the time being remaining outstanding. If within 10 minutes from the time fixed for the meeting a quorum is not present, the meeting shall be adjourned for such period, not being less than 21 days nor more than 42 days, and to such place as may be decided by the chairman of the meeting.
- Every question submitted to a meeting will be decided by a show of hands unless a poll is demanded by the chairman of the meeting or by the Company or by one or more persons representing not less than 1 per cent. in principal amount of the Bonds. On a show of hands every person who is present in person and produces an outstanding Bond(s) or a voting certificate or a proxy shall have one vote. On a poll every person who is present shall have one vote in respect of each US \$1,000 principal amount of Bonds so produced or represented by the voting certificate or produced in respect of which he is present.
- To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75 per cent. of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Bondholders, whether or not present or voting at such meeting, and upon all the holders of the Company relating to the Bonds.

Paying Agents
Bankers Trust Company
1 Appold Street
London EC2A 4HE
22nd May, 1998

Bankers Trust Luxembourg S.A.
P.O. Box 807
14 Boulevard ED. Roosevelt
L-1550 Luxembourg

Swiss Bank Corporation
1 Aeschenvorstadt
CH-4002 Basel
Switzerland

TriGem Computer, Inc.

COMPANIES & FINANCE: UK

TI launches agreed £267m bid for EIS

By Andrew Edgecliffe-Johnson

TI Group announced a £267m (£466m) agreed bid yesterday for EIS Group, the fluid-technology and aerospace group, expanding two of its four divisions substantially and raising expectations that it will pursue Vickers' £150m marine propulsion business.

Sir Christopher Lewinton, chairman, said TI could afford another £500m of acquisitions despite having spent £500m on three deals since March. "You will see the momentum continuing," he said.

The specialist engineering group is understood to be particularly keen on a bid for Kamewa, the marine propulsion business of Vickers, the tanks and engines group which is selling Rolls-Royce Motor Cars.

Analysts said the bid for EIS, which supplies couplings between the gas turbines and gear boxes on naval destroyers, would give TI about £200m of turnover in marine propulsion, and a broader product range than Kamewa.

The figure assumes that TI will spend about £100m shortly to take full control of Lipe, the Dutch marine propulsion business of which it owns 30 per cent. It compares with Kamewa's sales of about £150m.

Bill Laule, chief executive, said the EIS bid was effectively two bolt-on acquisitions. EIS would add about £240m of fluid technology

sales to the John Crane sealing systems division, which had annual sales of £411m, he said, and would increase Dowty Aerospace's £300m sales by about £200m.

Analysts said the bid answered doubts about TI's commitment to aerospace, following its £267m exit from the Messier-Dowty landing gear joint venture.

The offer values EIS at 505p per share - 46 per cent above their level on Monday - and prompted a leap in its price from 346p to 500p.

Paul Compton, engineering analyst at Merrill Lynch, said he was surprised that EIS's board recommended a bid worth just 53 per cent of last year's sales and 9.4 times 1997 operating profits.

The bid comes after five years in which EIS's shares have fallen 50 per cent behind the engineering sector. One analyst said: "EIS's mistake was that it tried to chase all the girls, rather than focus on its most attractive niche businesses."

EIS began to restructure after buying Aerostructures Hamble, the ill-fated aircraft parts maker, in 1993, but TI is expected to sell more than 15 per cent of its remaining businesses. Peter Haslehurst, EIS chief executive, said Aerostructures had returned to the black, and that "it was only correct we should recommend" TI's terms. He and Jack Hobbs, finance director, are expected to leave with compensation after a handover period.

M&S warns of costs of £2.2bn expansion

By Penny Hollinger

Sir Richard Greenbury, chairman of Marks and Spencer, yesterday added his voice to the gloom gathering over the UK retail sector as he warned that trading would become increasingly difficult over the next year.

"The boom that took place in the home furnishings and

consumer durables markets in 1996-97 is quite clearly over," he said. "With less money available [to the consumer] retailing is going to get tougher and tougher."

Yet M&S also said it was going ahead with an aggressive £2.2bn (£3.7bn) expansion programme, which Sir Richard warned would hold back profits growth this

year. "These investments, essential for the long-term progress of the business, will affect our results in the short term," he said.

His comments came as M&S reported pre-tax profits 6 per cent ahead at £1.17bn, helped by an exceptional £33.2m VAT credit on sales 5.1 per cent up to £8.24bn for the year to March 31.

Although the results were largely in line with analysts' forecasts, some brokers cut expectations for the current year by about £50m to £1.11bn, before exceptional. This would mark M&S's first reversal in pre-tax profits since 1992. However, most analysts said the relatively flat earnings performance should give little cause for

concern as it was largely due to a number of exceptional costs and investments, and the effects of adverse currency movements.

M&S plans to add 1.5m sq ft of retail space in the UK, an increase of almost 14 per cent, expected to be evenly divided between food and non-food. It is also set to invest £300m overseas over

the next two years, to add some 900,000 sq ft.

In the UK, M&S reported a 5.5 per cent rise in retail turnover to £8.7bn. The overseas business returned operating profits some £23.5m lower than last year at £87.5m. Sales fell marginally from £1.28bn to £1.27bn.

Lex, Page 14



Francis Mackay celebrates the company's World Cup catering contract with a confectionery trophy

Compass breaks £2bn barrier

By David Blackwell

Compass Group, which has grown to be one of the world's biggest contract caterers, pushed turnover above £2bn (£3.3bn) in its first half, helping to lift profits by 20 per cent.

The group, which earlier this year entered the FTSE 100 index, is planning a 2-for-1 share split following the sharp rise in the price over the past few months.

Yesterday the shares added a further 25p to close at £11.40, up from 78p in February when Accor, the French hotel group, sold half of its 10 per cent stake in Compass.

Francis Mackay, chief executive, said the value of new business signed this

Value of new contracts signed this year alone will make group sixth largest food business in the world

year alone would make the group the sixth largest food business in the world.

Mr Mackay singled out the global contract with Philips Electronics, which will add 270,000 potential customers, and the contract with KPN, the Dutch telecommunications group, which employs 120,000.

Pre-tax profits for the six months to March 28 rose from £56.4m to £67.5m on sales of £2.01bn (£1.72bn). Like-for-like sales were ahead 8 per cent.

Earnings per share expanded 13 per cent to 14.6p (12.9p), and the interim dividend is raised by a similar

amount to 3.5p (3.1p).

The group, which makes more than 80 per cent of sales outside the UK, said that earnings would have been 28 per cent higher at constant currencies.

Compass will continue to make earnings enhancing bolt-on acquisitions, but the main foundations of the group have been firmly laid. All three divisions - the UK, Europe and the US - continue to improve margins as the focus is switched to organic growth and better use of purchasing power.

Yesterday the group outlined its plans to reduce the 180 blends of coffee it uses

across Europe to less than 10, and the number of suppliers from 30 to effectively one main supplier, which it expects to provide up to 90 per cent of its coffee. This exercise is just getting under way, and could be applied to other goods such as canned vegetables, and frozen fish and meat.

The group also reported that trials of a new modular form of staff restaurant making better use of branded goods had led to a 80 per cent rise in sales. The success of the acquisition-led years is underlined by the multiple of 33 on estimated full-year profits of £160m.

Berisford plans global expansion

By Arkady Ostrovsky

Berisford, the industrial group, intends to spend £200m (£334) on acquisitions to position itself as a global supplier of catering equipment to international food chains.

Reporting a 41 per cent increase in underlying profits in the first half, it said yesterday there was a great need for consolidation in the cooking equipment sector - which could be followed by similar moves in the kitchen retail market.

Berisford owns Welbilt, the US supplier of catering equipment to McDonald's and Burger King, and Magnet, the UK domestic kitchen chain.

Alan Bowkett, chief executive, said the expansion plans would be financed through borrowings: "We have tidied up our numbers and are ready for expansion, which could consist of two stages. First we would follow international chains such as

McDonald's, and then we will try to penetrate local markets."

Mr Bowkett said the £11bn catering equipment market was highly fragmented and there was no single supplier to provide a whole range of products and services to companies such as McDonald's.

Berisford reported growth in underlying profits up 41 per cent to £21.7m (£14.5m) for the six months to March 28, including exceptional profits fell from £38.9m to £21.7m on turnover rose 9 per cent to £281.3m (£261m). Analysts lifted full-year forecasts from \$45m to \$47.5m.

Welbilt pushed operating profits to \$34.7m (\$31.2m) while Magnet increased operating profits 69 per cent to \$5.9m (£3.5m).

Mr Bowkett said the conversion of the £230m of loan stock was becoming more attractive as the share price increased.

The shares gained 15.5p to 248p.

St Michael

RESULTS FOR THE FINANCIAL YEAR 1997/98

EARNINGS UP 9%

DIVIDEND PER SHARE UP 10%
STRONG UK PERFORMANCE IN CLOTHING, FOOTWEAR AND GIFTS, UP 8%

£2.2bn EXPANSION PLAN.

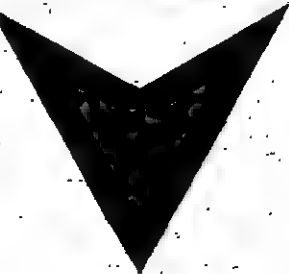
"We have entered a period of major capital investment and revenue expenditure, being funded without recourse to shareholders, which will generate significant sales growth and profits in the years ahead. These investments, essential for the long term progress of the business, will affect our results in the short term, but we are very confident in the benefits they bring from 1999/2000 onwards."

HIGHLIGHTS FROM THE STATEMENT BY THE CHAIRMAN SIR RICHARD GREENBURY

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MANAGEMENT & TECHNOLOGY

INFORMATION TECHNOLOGY E-COMMERCE

Fear and enterprise on the net

Internet commerce between US businesses is forecast to exceed \$300bn within four years

e-question

'How will e-commerce change the rules for doing business?'

It is a powerful, dislocating force that can overturn the constraints of location, scale and time zones. It has the potential to undermine existing businesses and present huge opportunities to unknown start-ups. It could, in the words of Bill Gates, head of Microsoft, the world's largest software company, usher in "a new world of low-friction, low-overhead capitalism".

This is electronic commerce, the emerging electronic marketplace that, according to some forecasts, threatens to reshape business.

Yet, up to now, many companies have ignored e-commerce. They have watched as a succession of much-publicised ventures have crashed and even the best have struggled to translate success into profits. This has created an impression that the Internet is a dangerous sales channel that can, for now, be left to others.

Such views look increasingly untenable. As e-commerce develops, companies must be alert to the opportunities and the threats it presents.

This argument stems partly from the likely scale of e-commerce. In the US, the Internet influenced an estimated \$7.5bn of consumer sales last year, according to Cyber Dialogue, the research organisation. By 2002, Internet commerce between US businesses is likely to exceed \$300bn, says the US Department of Commerce. But it is also based on the potential of e-commerce to change the rules of business.

From the start, it has been clear that the free flow of information about buyers and sellers on the net could undermine the role of intermediaries. In the US, airlines have slashed the commissions paid to travel agents as more customers book online.

But cutting out the middleman is just one possibility. As Shikhar Ghosh, chairman of Open Market, an e-commerce software company, argues in the March edition of Harvard Business Review: "The ubiquity of the Internet - the fact that anyone can link to anyone else - makes it potentially possible for a participant in the value chain to

usurp the role of any other participant.

"Once companies establish an electronic channel, they could choose to become pirates in the value chain, capturing margins from other participants up or down the chain."

Not only could a book publisher bypass retailers or distributors and sell directly to readers, but Internet book sellers such as Barnes & Noble and Amazon.com could publish their own books using the information they have obtained about their readers' interests.

This presents a dilemma for established companies with physical distribution chains. If they do not compete electronically, they will lose business to companies that do. But if they switch to the Internet, they risk damaging long-standing relationships that yield the bulk of their income.

Yet the balance of power in the supply chain will not necessarily move against the middleman. Distributors may fight back against the threat of manufacturers selling direct or choosing new intermediaries. By taking control of customer information, an online distributor could demand bigger discounts and squeeze manufacturers' margins.

Equally, suppliers and distributors could opt for a co-operative relationship - mirroring the trend towards collaboration in

the physical world. By working together and sharing information, they will be able to reduce errors, lead times and stock.

Yet companies must be vigilant against an even greater Internet threat: the creation of an ultra-efficient, transparent market.

This can be illustrated by InsWeb Corporation, which allows customers to compare prices for several different products including health, life and car insurance. Although side-by-side comparisons could damage the pricing strategies of individual providers, they may be unable to resist being listed on the site, says Mr Ghosh. If InsWeb can get enough traffic to its site, laggard insurers will have little choice but to participate.

Another source of anxiety for companies fearing cut-throat competition on the net is the emergence of "agents" or "bots" - software that can scour merchants' web sites seeking the best deal.

Loyalty may seem an alien concept in a world where alternative vendors are just a mouse click away. Yet there are good reasons for believing that the web could become what Mr Ghosh describes as "a naturally concentrating medium", in which a few companies meet the needs of large segments of the global market.

The Internet overturns many of the traditional reasons for having



numerous suppliers in an industry. If the product or service can be easily delivered, there are no physical constraints on the location of cyberstores.

The companies that come to dominate the net may be the pioneers, which can secure important advantages over latecomers. They can use information about their customers to tailor their offerings and they may even be able to foster a sense of community among users. Part of the appeal of Amazon.com is the book reviews posted by readers. Not every established business

needs to regard the web with trepidation. Some retailers will be protected because their customers do not have access to, or enthusiasm for, the web; or prefer to try the goods before buying.

But companies selling travel, computers, entertainment, books and music can expect a significant part of their industry to move online. Above all, e-commerce will affect companies that sell to other companies, where small price differences can yield big savings and large volumes of business

are already done remotely. For these companies, an inability to grasp the significance of e-commerce could be enormously damaging. "It is going to be quite bloody," predicts Emily Green, managing director of Forrester Research. "The Internet does not wipe out markets, but it resculpts them. It is an enormously destructive force."

Vanessa Houlder

This article is the first in a weekly series examining business and the Internet.

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LOUISE KEHOE
EAGLE EYE

Progress is pushing at an open portal

Push technology is giving way to the latest fad in gateway web sites

A year ago, push technology was all the rage. For a time, this approach to "broadcasting" information to subscribers' computers, rather than expecting them to find web sites on their own, seemed to be the ticket to success for web publishers.

But the excitement didn't last. Of the dozen or so companies formed on the back of the push fad, few have enjoyed success. Those that survived no longer use the term "push", which is now considered as exciting as leprosy.

Marimba, one of the most prominent push technology companies, has recast itself as a supplier of tools for updating or distributing software applications via the Internet. Pointcast, a push channel pioneer, has switched its focus from software to content. As it prepares for its initial public share offering, Pointcast is presenting itself as an aggregator of content from various web sources. The company collects articles and information on specialised subjects and delivers them to business users.

Push may not have lived up to the hype, but never fear, there is a new fad sweeping the web publishing business. Portals, or gateway web sites, are now the hot topic.

The idea is that users will become accustomed to a particular portal site and use it routinely as their way into the web. Yahoo! and America Online are the most established portals, but Netscape, Excite, Infoseek and many others are jumping on the bandwagon.

Like push channels, portals are designed to make web use simpler. With search facilities, messaging service, telephony and shopping, they make it easier for users to find their way round the web. Also like push channels, web portals are designed to grab users' attention for long enough to show them lots of advertisements.

Portals seem promising. But promoters should be mindful of the rise and fall of push technology. To many web users, it felt too pushy - they tired of the constant flow of information and turned it off. Similarly, if web users feel they are being captured or confined by a portal, they may move on.

The Clinton administration is finally taking a stand on privacy issues. In a speech in New York last week,

vice-president Al Gore called for legislation to ensure the privacy of personal medical records stored in computers.

He also announced plans for a new opt-out web site (www.consumer.gov) where individuals can remove their names and addresses from junk mail and telemarketing lists. The site will also let individuals stop their personal information being sold to marketers and prevent companies checking their credit records without permission.

These practices were common long before the Internet became popular. However, web sites can call vast amounts of information about individual consumers' interests more quickly and inexpensively than traditional methods. So placing limits on how personal information can be used is all the more vital.

Opt-out features are not yet available on the consumer.gov web site, but it is worth a visit anyway. Although aimed at US consumers, the site offers information of value to all web users. In particular, the consumer site provides details of scams that have been uncovered by federal regulators - including some of the "get rich quick" schemes distributed via e-mail and the web. If you need persuading that these messages are not worth the paper they are not written on, check out this site.

Apple Computer is famous for inventing - or at least making - the first commercially viable product that brought a graphical user interface to the PC screen. For a while, the look and feel of the Macintosh was unique. Now it seems that Apple is once more relying on "look and feel" to make a comeback. This time, it is in the shape and colour of the box that houses the computer.

This is what it has come down to. Apple's iMac provides little more than standard PCs in its price range, and less than many. Yet it has style - a space-age design that looks like something the Jetsons would use with luminescent blue slides and a light-up mouse.

But for a breakthrough development, Macintosh fans must wait until late 1999, when Apple says it will deliver a fully updated version of its ageing Mac operating system, until when users and software developers can look forward to six-monthly updates. However, users and software developers must decide now whether Apple will, this time, deliver on its promise.

The novelty of an illuminated mouse could wear off long before then.

EURO PRICES

EQUITIES

Europe gains on US rate hopes

EUROPEAN OVERVIEW

By Martin Dickson

Trans-European equity indices rose yesterday as fears faded of an immediate US interest rate increase and Indonesia's political turmoil appeared to ease.

The FTSE Eurotop 300 index rose 15.34 points to 1,217.34, while the Eurotop 100 index rose 35.55 to 2,794.33. The Euronext 100, which tracks companies from founder members of European monetary union, rose 16.23 to 1016.62.

The market gained early in the day on overnight

recovery in Asia following the announcement by Indonesia's President Suharto that he would hold democratic elections. The tone was reinforced by a positive start on Wall Street, where fears faded that the Federal Reserve would tighten monetary policy at its meeting later in the day.

In the bond markets, German government prices were marginally higher, with the benchmark 10-year issue trading late in the day at 102.11, up 0.11 on Monday night, to yield 4.98 per cent.

The best performing Eurotop sector was life insurance, which gained 3.2 per cent,

with the Netherlands' Aegon up Ecu 5.7 at Ecu 129.95 and Britain's Prudential up Ecu 0.3 at Ecu 11.82.

General insurance gained 2.2 per cent, with Allianz up Ecu 10.8 at Ecu 297.20 and Axa Ecu 2.5 ahead at Ecu 105.83.

Bank stocks recovered some recent losses on fears of exposure to Asian markets, with the sector 1.81 ahead and good performance from Societe Generale, up Ecu 7.8 at Ecu 184.41.

Deutsche Bank, up Ecu 2.0 at Ecu 78.84, and Banco Popular, up Ecu 3.6 ahead at Ecu 78.86.

Food retailers advanced

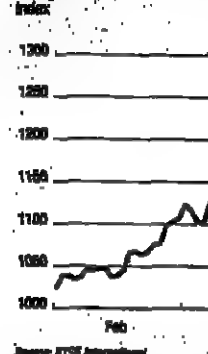
1.95 per cent, helped by the announcement that Abold of the Netherlands was bidding for the US supermarket group Giant Food, and was buying up J. Sainsbury's minority stake in the business. Abold jumped Ecu 1.7 to Ecu 80.86, while Sainsbury gained Ecu 0.5 to Ecu 7.68.

Sectors which ended in negative territory included healthcare, leisure and hotels, oil exploration and property.

France Telecom led a 1.78 per cent advance in the telecom sector, its shares rose Ecu 2.3 to Ecu 50.72 while Deutsche Telecom put on Ecu 0.6 to Ecu 24.16.

Food retailers advanced

Eurotop 300 Euroindex



IN THREE MONTHS EURO FUTURES (DIFF) Expiry points of 100%

	Open	Sett	Change	High	Low	Est. vol	Open Int.
Jun	85.780	85.745	-0.035	85.790	85.740	370	18923
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FTSE Actuaries Share Indices

	May 19	May 18	Change	Yield	Dividend	Dividend Yield
FTSE Actuaries 300	1217.34	1217.34	+15.34	1.95	12.18	1230.42
FTSE Actuaries 100	2794.33	2794.33	+35.55	2.02	10.04	900.62
FTSE Actuaries 50	1016.62	1016.62	+16.23	1.81	4.77	1021.45

FTSE Actuaries Share Indices

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FTSE Actuaries 50	1016.62	1016.62	+16.23	1.81	4.77	1021.45

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FTSE Actuaries 100	2794.33	2794.33	+35.55	2.02	10.04	900.62
FTSE Actuaries 50	1016.62	1016.62	+16.23	1.81	4.77	1021.45

FTSE Actuaries Share Indices

	May 19	May 18	Change	Yield	Dividend	Dividend Yield
FTSE Actuaries 300	1217.34	1217.34	+15.34	1.95	12.18	1230.42
FTSE Actuaries 100	2794.33	2794.33	+35.55	2.02	10.04	900.62
FTSE Actuaries 50	1016.62	1016.62	+16.23	1.81	4.77	1021.45

FTSE Actuaries Share Indices

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FTSE Actuaries 50	1					

Gilts take centre stage as Fed holds rates

EIB presents \$2bn deal as benchmark

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COMMODITIES & AGRICULTURE

High silver price dries up Indian demand

By Kenneth Gooding, Mining Correspondent

As Warren Buffett, the prominent US investor, was acquiring 4,000 tonnes of silver last year, millions of Indians, the world's biggest consumers of the metal, stopped buying. This is made clear in the latest market survey from the Washington-based Silver Institute.

When the silver price rose sharply towards the end of 1997, reflecting the buying activities of Mr Buffett's Berkshire Hathaway investment group, imports to India virtually dried up.

In India, most silver is bought by farmers in the north who stockpile the

metal as a form of saving. They do not look at the dollar price but at the cost in their domestic currency.

"At present, they buy when the price falls below Rs7,000 and stop buying when silver goes above Rs8,000," said Stewart Murray, managing director of Gold Fields Mineral Services, the consultancy that compiled the survey.

When the price of silver was languishing in the first half of last year - hitting a four-year low of \$4.22 a troy ounce in mid July - India's bullion imports were "phenomenal". As the price increased, to touch a nine-year high of \$6.27 in late December, imports fell to

Silver: world supply and demand

	1994	1995	1996	1997
Supply				
Mine production	685.7	685.2	689.9	692.8
Old silver stock	100.0	100.0	100.0	100.0
Unallocated stock	100.0	100.0	100.0	100.0
Total supply	785.7	785.2	789.9	792.8
Demand				
Industrial	180.0	180.0	180.0	180.0
Photography	200.0	200.0	200.0	200.0
Jewellery and ornaments	220.0	220.0	220.0	220.0
Official stock	100.0	100.0	100.0	100.0
Total demand	700.0	700.0	700.0	700.0

Source: Silver Institute 1998

virtually nothing.

Mr Murray said the Indian silver "buyers' strike" was also partly a reaction to the

unprecedented level of imports in the record second quarter and partly because the price of gold, also

favoured in India for savings, was falling.

Mr Buffett was attracted to silver by the low price, but he was also influenced by the way demand had exceeded conventional supply - from mines and scrap - for many years.

In 1997, the "statistical deficit" was 130m ounces or 4,031 tonnes. Between 1990 and 1997, cumulative silver fabrication demand exceeded mine supply by 2,226m ounces. The gap has been filled by recycled silver scrap, almost entirely from the photographic industry, and more than 1,084m ounces from silver stocks - 700m from identifiable bullion stocks and the balance

Calm view on Indonesia helps coffee

MARKETS REPORT

By Gary Mead and Kenneth Gooding

Coffee traders on the London International Financial Futures and Options Exchange took an unemotional view of the continuing uncertainty in Indonesia yesterday, with a developing consensus that disruption to transportation and administrative aspects of coffee trading may be minimal and short lived.

"I think speculation over supply disruptions for Indonesia is premature and that most of the price jumps have related to traders holding back coffee because of the collapsing rupiah. Now sentiment towards the Indonesian currency has improved, the supply situation is likely to be better than the speculators have been implying," said Lawrence Eagles, head of research at GNL.

Traders are talking of a 1998-1999 Indonesian robusta harvest of 300,000-325,000 tonnes, following drought and poor photosynthesis, against a more typical yield of 430,000 tonnes. However, this low expectation has probably already been factored into the price, and may be offset by an expected large Brazilian harvest.

On Liffe, the July robusta contract closed at \$1.910 a tonne, \$45 lower, partly because of the calmer view of Indonesia's problems and partly as a result of the imminent expiry of the May contract, which closing \$1.86 lower (at \$2,055 a tonne), softened the whole market.

Elsewhere on Liffe, cocoa futures also ended lower, the July contract closing at \$1,127 a tonne, \$14 down, as profit-taking continued. News that Russia will attend the June 24 meeting

in Vienna of the Organisation of Petroleum Exporting Countries failed to boost the flagging spirits of crude oil traders yesterday. The onset of warmer weather in the northern hemisphere signalled the start of further slackening demand. On the International Petroleum Exchange in London Brent crude for July continued to drift within a 15 cent range and was down 1 cent a barrel in later trading, at \$14.45.

On the London Metal Exchange copper's price steadied after falling by nearly 5 per cent on Monday to close yesterday at \$1,677 a tonne, up \$12, or nearly 1 per cent.

Chinese selling caused the fall on Monday, said traders, but it was the big increase in copper supply scheduled to hit the market in the next two to three years that was likely to drive prices lower.

"Some traders are talking about prices as low as \$1,400 a tonne," said Jim Lemmon, analyst at Macquarie Equities, part of the Australian banking group. "The past relationship between industry costs and prices at the bottom of the economic cycle means such levels are not out of the question."

He pointed to a Brook Hunt consultancy report that suggested copper prices would have to average about \$1,450 a tonne next year and in 2000 to generate the big production cuts needed to balance the market. The report drew a parallel with the early 1980s when copper prices at or below \$1,543 were needed for four years to induce 1.1m tonnes of annual capacity to be cut at 65 copper mines.

On the bullion market, palladium's price, which reached a record in London on Monday, eased back to close at \$400 an ounce.

Hedging blamed for gold's loss of shine

Barrick prospers but some fear forward selling may kill the industry, says Edward Alden

The World Gold Council has blamed the dramatic fall in the world's gold price - it slid last year to its lowest level in nearly 18 years - on the increasing use of hedging by producers. The world's biggest and most effective hedger is Barrick Gold, and at the company's annual general meeting last week, Peter Munk, chairman, indicated why.

The company, North America's second largest gold producer, had just come through what Mr Munk called "a devastatingly bad year" in which gold prices dropped 26 per cent and the average share price in the industry fell 46 per cent. Barrick shares dropped from \$31 early in the year to less than \$10 by the year's end.

However, not only had it survived, in the first quarter of 1998 it turned in a 36 per cent increase in profits despite gold prices remaining near \$300 an ounce.

The company benefited from rising production and a cost-cutting programme, but most of the attention has focused on its aggressive hedging.

In 1997, Barrick's forward-selling meant its entire production realised \$420 an ounce, \$86 above the average spot price for the year. That produced an extra \$260m in revenue and \$200m in earnings, said Randall Oliphant, chief financial officer. Over the past 10 years, Barrick has earned an average premium of \$46 an ounce over the spot price.

Hedging has been remarkably effective, particularly in the long bear market for gold, most analysts say. Canada's Placer Dome realised strong first-quarter profits on a hedged price of \$360 an ounce, and Australia's Normandy Mining has hedged about 80 per cent of its reserves. Companies that have mostly eschewed hedging, such as Newmont Mining, North America's largest gold producer, are more exposed to the continued weakness of gold prices.

"Of all the gold companies in North America, they (Barrick) have been the greatest winner," says Todd Hinrichs, senior mining analyst with ABN Amro in Chicago. But not all observers are

quite so enthusiastic. There are many who fear the practice may destroy the gold business. The large quantities of gold dumped on the market as a result of forward selling have, they fear, seriously depressed the price of gold and perhaps tarnished its lustre permanently.

"They've damaged their underlying business," says Graham Birch, who heads the gold and mining team at Mercury Asset Management in London, one of the UK's largest institutional buyers of gold stocks. "Without a doubt they've contributed to the weakness in the gold market, which has affected their stock valuation." While Barrick's stock has recovered to \$32, it has yet to regain more than a fraction of last year's slide.

The gold business lends itself to a unique kind of forward selling, because of the large quantities of gold in the world's central banks.

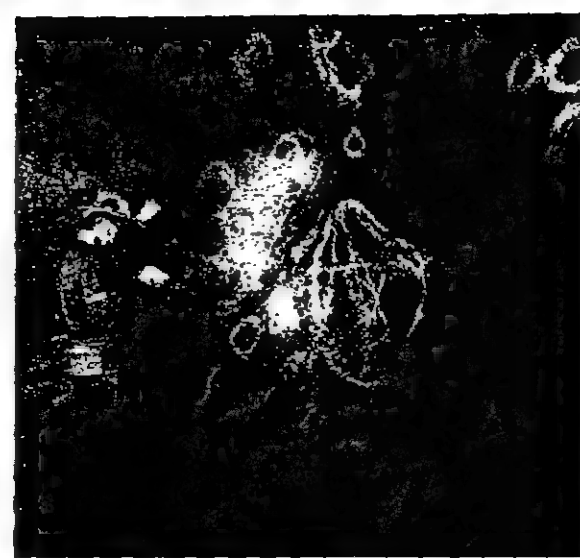
While there are variations, the basic arrangement works like this. A company borrows gold from a bullion dealer or bank, which borrows the metal from a central bank. The company pays a lease rate of roughly 2 per cent for the privilege.

The gold is immediately sold into the spot market, and the proceeds banked to earn interest rate returns of 6 per cent or higher. Gold from production is delivered two, three or more years later against the contract and returned to the central bank. By that time the company has earned not only the proceeds from the original spot sale, but interest profits in the interim.

"It's a great strategy," says Larry Strauss, senior mining analyst with Canaccord Capital in Toronto. "To me it's a no-brainer."

Barrick says it currently has 10m ounces - about three years' production - hedged at more than \$400 an ounce, creating a \$4bn asset that can earn \$300m a year with a 5 per cent net return. Critics say the arrangement depends on the spot price of gold not rising above the forward price.

But Barrick has entered into flexible contracts that allow delivery to be deferred



Mining for gold: but will it keep its value?

Cortis

so immediate production can be sold at the higher spot price. Unlike other companies with smaller gold cash reserves or less gold cash positions, Barrick can defer contracts up to 15 years.

Detractors like Mr Birch at MAM say the strategy leaves hedgers over-exposed to changes in the futures market, but ABN Amro's Mr Hinrichs says the odds of such events are sufficiently small to make hedging a good bet.

Most people who buy gold

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Metal Exchange (Metal Trading))

IN ALUMINIUM, 62.5 PERCENT (2 per cent)

IN COPPER, 100 PERCENT (2 per cent)

IN ZINC, 100 PERCENT (2 per cent)

IN LEAD, 100 PERCENT (2 per cent)

IN NICKEL, 100 PERCENT (2 per cent)

IN TIN, 100 PERCENT (2 per cent)

IN SILVER, 100 PERCENT (2 per cent)

IN GOLD, 100 PERCENT (2 per cent)

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IN IRIDIUM, 100 PERCENT (2 per cent)

IN RHODIUM, 100 PERCENT (2 per cent)

IN PALLADIUM, 100 PERCENT (2 per cent)

IN COBALT, 100 PERCENT (2 per cent)

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PRECIOUS METALS

LONDON METAL EXCHANGE

(Prices from Metal Exchange (Metal Trading))

IN ALUMINIUM, 62.5 PERCENT (2 per cent)

IN COPPER, 100 PERCENT (2 per cent)

IN ZINC, 100 PERCENT (2 per cent)

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GRAINS AND OIL SEEDS

LONDON METAL EXCHANGE

(Prices from Metal Exchange (Metal Trading))

IN ALUMINIUM, 62.5 PERCENT (2 per cent)

IN COPPER, 100 PERCENT (2 per cent)

IN ZINC, 100 PERCENT (2 per cent)

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SOFTS

LONDON METAL EXCHANGE

(Prices from Metal Exchange (Metal Trading))

IN ALUMINIUM, 62.5 PERCENT (2 per cent)

IN COPPER, 100 PERCENT (2 per cent

Offshore Funds

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THE UNIVERSITY OF CHICAGO

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W. G. Groff

[illegible]

Telecommunications Int'l	218.51	1
Telecom. Systems Int'l	218.51	1
Telecom. Systems Int'l	218.51	1

[illegible]

Active	\$2.36
	\$3.77

[illegible]

WY A

[illegible]

Management (Jerny) I

[illegible]

Serving Institutional Investors Worldwide

THESE DATA

[illegible]

Frank Frazzelli Investments
 Edward J. Frazzelli, President

[illegible]

New Energy Fd _____ \$11.20
 New Energy Fd Pk _____ \$9.54
Prudential Securities Futs

[illegible]

President Joseph... C

1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991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1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	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Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100
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Mortality Div	107	11	11
Estimating Bureau	108	11	11
Zero Day P1	109	11	11
Barcode Unit	110	11	11
Inc.	111	11	11
Zero Cost Prod	112	11	11
Flintco Inc & Smith Insp	113	11	11
Corp	114	11	11
Zero Day P1	115	11	11

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Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100
1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	

هذه امن الاجل

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

[illegible]**FT/S&P ACTUARIES WORLD INDICES**

The FTSE4Good Actuarial World Indices are owned by FTSE International Limited, Goldschmidt, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd, was a co-founder of the indices.

REGIONAL AND NATIONAL MARKETS		THURSDAY MAY 15 1998										FRIDAY MAY 15 1998										DOLLAR INDEX	
Planned to participate show number of Name of stock		US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on prev	Grain Dn. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 Week High	52 Week Low	Year ago (approx)						
Australia (72)		197.24	-2.3	180.37	183.47	211.20	-1.3	3.73	281.97	185.76	177.18	187.05	214.07	214.07	243.87	190.26	231.25						
Austria (22)		141.17		225.54	228.22	210.21	-1.1	1.47	282.22	228.22	221.28	211.48	211.48	211.48	211.48	211.48	211.48						
Canada (10)		137.44	-0.4	232.74	234.10	217.10	-1.1	2.35	239.05	239.49	237.35	214.00	237.05	238.05	234.33	234.33	234.33						
Brazil (28)		225.61	-6.8	204.48	192.39	208.00	47.15	-5.8	2.15	237.58	216.17	201.38	220.03	201.48	322.44	194.84	201.48						
China (120)		243.54	-0.2	222.71	223.93	226.33	252.02	0.9	1.37	243.52	224.91	205.73	222.90	255.22	246.76	194.20	251.75						
Denmark (24)		169.52	0.3	249.52	250.77	245.65	0.7	1.33	245.65	245.65	245.65	245.65	245.65	245.65	245.65	245.65	245.65						
France (72)		172.52	-2.7	311.04	307.91	307.77	488.03	-1.6	1.87	486.37	307.27	378.05	404.37	456.07	411.52	257.45	456.07						
Germany (120)		211.84	-1.5	265.80	266.90	270.72	724.26	-1.1	2.00	371.82	266.90	298.19	294.16	327.99	319.53	213.42	327.99						
Greece (31)		286.11	-1.4	291.84	298.18	295.14	235.14	-1.0	1.34	290.33	295.14	294.05	294.05	294.05	294.05	294.05	294.05						
India (10)		285.54	0.8	285.54	285.54	285.54	285.54	0.8	1.34	285.54	285.54	285.54	285.54	285.54	285.54	285.54	285.54						
Indonesia (27)		285.54	-0.9	361.13	245.65	265.62	241.11	-0.9	0.59	268.14	262.17	244.21	266.85	266.85	580.03	262.83	266.85						
Italy (27)		277.26	-15.1	34.58	23.45	25.36	206.82	-3.1	3.45	32.09	25.36	27.20	28.72	211.05	254.00	277.26	254.00						
Japan (16)		150.45	-2.1	455.07	455.07	455.07	455.07	-2.1	1.58	455.07	455.07	455.07	455.07	455.07	455.07	455.07	455.07						
Korea (24)		243.54	-0.4	139.45	136.55	147.74	266.36	-0.9	1.84	155.45	155.45	155.45	155.45	155.45	155.45	155.45	155.45						
Malaysia (107)		156.18	-3.2	141.86	141.86	141.86	141.86	-3.2	0.59	141.86	141.86	141.86	141.86	141.86	141.86	141.86	141.86						
Mexico (24)		156.18	-3.2	141.86	141.86	141.86	141.86	-3.2	0.59	141.86	141.86	141.86	141.86	141.86	141.86	141.86	141.86						
New Zealand (14)		156.18	-3.2	141.86	141.86	141.86	141.86	-3.2	0.59	141.86	141.86	141.86	141.86	141.86	141.86	141.86	141.86						
Norway (30)		330.12	-1.8	330.12	330.12	330.12	330.12	-1.8	1.86	330.12	330.12	330.12	330.12	330.12	330.12	330.12	330.12						
Philippines (22)		330.12	-1.8	330.12	330.12	330.12	330.12	-1.8	1.86	330.12	330.12	330.12	330.12	330.12	330.12	330.12	330.12						
Singapore (12)		373.02	0.9	373.02	373.02	373.02	373.02	0.9	1.86	373.02	373.02	373.02	373.02	373.02	373.02	373.02	373.02						
South Africa (14)		175.86	-3.4	151.73	152.18	148.51	134.75	-2.7	2.25	183.05	148.51	125.15	139.45	140.01	401.75	140.01	399.35						
Spain (31)		315.54	-0.3	288.45	291.40	292.42	291.40	-0.3	2.26	316.41	291.40	287.88	293.04	351.53	354.24	227.88	354.24						
Sweden (21)		371.87	-1.0	340.05	340.05	340.05	340.05	-1.0	1.86	340.05	340.05	340.05	340.05	340.05	340.05	340.05	340.05						
Switzerland (14)		371.87	-1.0	340.05	340.05	340.05	340.05	-1.0	1.86	340.05	340.05	340.05	340.05	340.05	340.05	340.05	340.05						
Taiwan (24)		355.25	-2.4	359.61	338.25	338.25	338.25	-2.4	1.86	359.61	338.25	338.25	338.25	338.25	338.25	338.25	338.25						
Thailand (29)		22.10	-4.0	201.18	202.01	203.00	33.00	-3.6	6.26	22.29	21.14	19.69	21.52	55.85	69.08	13.10	55.85						
United Kingdom (208)		373.02	0.9	373.02	373.02	373.02	373.02	0.9	1.86	373.02	373.02	373.02	373.02	373.02	373.02	373.02	373.02						
USA (610)		451.76	-0.3	411.32	396.86	402.22	451.76	-0.3	1.42	451.86	412.24	380.00	415.81	453.08	453.08	411.32	385.75						
Americas (610)		400.73	-0.4	373.77	351.86	355.19	345.48	-0.3	1.44	410.21	373.23	347.67	379.09	346.68	418.55	377.27	377.27						
Europe (148)		349.76	-1.3	349.76	349.76	349.76	349.76	-1.3	2.02	350.25	349.76	349.76	349.76	349.76	349.76	349.76	349.76						
Europe (148)		100.20	-1.5	100.20	100.20	100.20	100.20	-1.5	1.08	101.10	100.20	100.20	100.20	100.20	100.20	100.20	100.20						
Europe (148)		511.07	-1.5	468.08	440.00	476.13	510.30	-0.8	1.71	510.92	472.75	440.37	481.20	522.24	538.88	440.37	522.24						
Pacific Basin (69)		100.80	-1.5	95.18	95.73	93.77	97.71	-0.7	1.17	102.38	95.73	92.72	94.76	97.43	158.95	95.73	158.95						
Asia-Pacific (1817)		204.58	-1.7	187.07	171.00	171.00	171.00	-1.7	1.74	187.07	171.00	171.00	171.00	171.00	171.00	171.00	171.00						
North America (765)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	301.81	301.81	301.81	301.81	301.81	301.81	301.81	301.81						
Europe East (50)		326.68	-0.3	301.81	301.81	301.81	301.81	-0.3	1.48	3													

4 pm close May 19

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GLOBAL EQUITY MARKETS

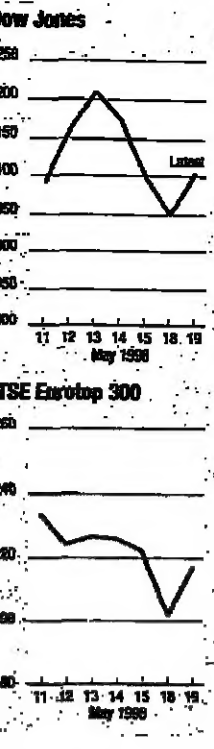
US INDICES

Due Date	May 10	May 14	May 14	1998	1998	Since completion	1998
				High	Low		
Intelsat	50501.91	50655.00	9172.23	9211.94	7590.42	9211.94	41.1%
				(135)		(135)	(071)
Home Bonds	104.89	104.70	104.94	105.46	104.42	105.46	1.1%
				(151)		(151)	(13)
Insatart	3367.21	3424.73	3459.81	3494.36	3368.32	3494.36	13.1%
				(154)		(154)	(18)
	2715.23	2729.51		291.18	202.85	291.18	9.0%
				(24)		(24)	(612)
EU sat. Earth Ops 9773.23 9745.74 Low 9822.39 9823.91 (Threshold)							
Low 9745.00 9765.10 Low 9765.10 9765.10 (Minimum)							
Standard and Poole							
Comcast	1105.82	1108.73	1117.37	1130.54	927.59	1130.54	4.4%
				(224)		(224)	(163)
InterneTV	1251.70	1239.85	1308.29	1311.66	1077.40	1311.66	2.1%
				(224)		(224)	(163)
FinancTV	133.13	133.96	141.38	140.85	110.65	140.85	7.1%
				(144)		(144)	(42)
Others							
WSE Group	673.18	527.40	578.31	585.82	467.47	585.82	6.0%
				(224)		(224)	(254)
Amec Group	732.26	737.89	741.36	753.67	646.41	753.67	10.7%
				(224)		(224)	(167)
MASCO Group	1897.82	1896.77	1895.36	1917.81	1552.22	1917.81	24.6%
				(224)		(224)	(167)
Resnet 2000	457.81	472.44	475.55	481.41	410.38	481.41	17.0%
				(214)		(214)	(373)
IN RATION							
Due Date	May 15	May 15	May 8	May 8	May 8	Year ops	
	1.56		1.56		1.54		1.71
	May 13	May 13	May 13	May 13	May 13	Year ops	
	1.50	1.50	1.50	1.50	1.50		1.72
S P P Inc. yield							22.3%
S P P Inc. P/E	31.00	31.00	31.00	31.00	31.00		

HC DATA

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LIBRAIRIE

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FRANCE

NATION									
	May 10	May 18	May 15	1958 High	1958 Low	Since completion High	Low	Since completion	
40	350.04	384.51	380.23	401.76	283.54	401.76	283.54	194.61	194.61
High 384.51 Low 283.54									
NATION YOUNG ACTIVITY									
Volume: 735,706,150									
IN BIGGEST MOVERS									
	Stocks	Come price	Day's change	Turnover	Come price	Day's change	Day's change %		
B	3,052,082	748.1	+31.8	Up	Metrico	118.2	+23.2	+25.2	
W	2,779,029	80.0	+4.0	Up	Aluminum	99.0	+8.0	+10.4	
W	2,676,425	242.1	+8.0	Up	General	771.0	+18.0	+19.1	
W	2,587,256	359.0	+16.5	Up	Car Process	67.0	+1.0	+1.5	
W	2,527,256	268.0	+10.0	Up	Field Co	56.2	+5.1	+10.0	
W	1,824,743	208.0	+8.0	Up	The New York	90.0	+15.9	+17.4	
W	1,200,716	105.0	+19.0	Up	OTHER	72.8	-7.8	-9.5	
W	1,274,146	100.0	+1.0	Up	General	270.0	+1.0	+1.5	
W	1,201,360	590.0	+8.0	Up	Scientific	36.2	-2.8	-7.8	
W	1,025,025	1008.0	+55.0	Up					
High 1008.0 Low 590.0									
NATION YOUNG ACTIVITY									
Volume: 665,000,000									
IN BIGGEST MOVERS									
	Stocks	Come price	Day's change	Turnover	Come price	Day's change	Day's change %		
W	2,744,870	193.0	-2	Up	ESG Corp	800	+154	+44.5	
W	2,414,870	128	+30.0	Up	Raychem	325	+35	+10.8	
W	2,262,870	161.1	+1.1	Up	Raychem	15	+1	+6.0	
W	2,062,800	834	+1	Up	Tenneco Corp	159	+20	+12.3	
W	1,918,800	321	+53.0	Up	Aircraft	67.5	+12	+17.6	
W	1,828,800	515.0	+34.0	Up	Reflex Corp	5	-1	-35.0	
W	1,772,800	125.0	+1.0	Up	Shaw Group	54.5	+12	+18.1	
W	1,133,400	484	+8.0	Up					
High 515.0 Low 484									

INDEX FUTURES

	Open	Close	Change	High
MSF 500				
Jan	1108.50	1112.90	+4.40	1113.50
Sep	0	1120.50	-	-
MS Michael 225	Open	Sett price	Change	High
Jan	15330.0	15660.0	+270.0	15690.0
Sep	15320.0	15660.0	-	-

Low	Mid	High
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THE NASDAQ STOCK MARKET

Stock	P	Vol	High	Low	Close	Stock	P	Vol	High	Low	Close	Stock	P	Vol	High	Low	Close	Stock	P	Vol	High	Low	Close
Am. Express	25.67	15	26.00	25.50	25.75	Am. Gas	1.17	175	1.20	1.15	1.17	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Oil	1.15	10	1.18	1.15	1.16
Am. Ind. Corp.	30.12	32	30.50	29.75	30.25	Am. Life	6.11	5	6.15	6.10	6.12	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16
Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16
Am. Life	6.11	5	6.15	6.10	6.12	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16
Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16
Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16
Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16
Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16
Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16
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Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16
Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16
Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16
Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16
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Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16
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Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16
Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16
Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16
Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16
Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16
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Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16
Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16
Am. Tel.	1.15	10	1.18	1.15	1.16	Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16
Am. Int'l	1.15	10	1.18	1.15	1.16	Am. Nat'l	1.15	10	1.18	1.15	1.16	Am. Pac.	1.15	10	1.18	1.15	1.16	Am. Tel.	1.15	10	1.18	1.15	1.16
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THE NASDAQ STOCK MARKET

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STOCK MARKETS

Bourses positive as eastern storms ease

WORLD OVERVIEW

By Simon Davies

A rousing speech from President Suharto of Indonesia and dramatic interest rate increases in Russia shored up confidence in the emerging markets yesterday.

The Indonesian stock market rallied strongly, with the Jakarta composite index climbing 6.4 per cent following President Suharto's loose commitment to new elec-

tions in which he will not participate. However, volume remained extremely thin, reflecting continuing nervousness. The lack of a firm timetable for his retirement, along with concerns over his potential successor, will encourage continuing volatility.

In Russia, the other great casualty of recent weeks, a 20 percentage point interest rate increase supported the currency and the stock mar-

ket's RTS index recovered almost 4 per cent.

With Japanese and Hong Kong equities also moving higher, there was an extremely positive backdrop for world equities. The US government assault on Microsoft did little to dent global investor confidence.

There was some uncertainty preceding last night's announcement on US interest rates, but given the strong consensus that rates would be left unchanged,

most stock markets moved ahead.

Germany's Xetra Dax hit both intraday and all-time highs yesterday, with few domestic issues to drive the market except for relief at the apparent stabilisation of market turmoil in the east.

The FTSE Eurotop 100 index gained 1.29 per cent on a relieved rally among blue-chip European stocks. James Montier, global strategist at BT Alex Brown, said: "The market is running

ahead of itself in thinking the problems in Indonesia are over, but there are large flows of funds coming into these markets." He argued that there was a significant earnings risk at current stock market valuations. However, Goldman Sachs is continuing its bullish stance, projecting 10 per cent growth in global equities over the next 12 months in its latest world investment strategy report. It argues that while valua-

tions are high, they are justified by current high returns on capital relative to the cost of capital.

It is projecting the greatest increases from Asia, excluding Japan, with a forecast 63 per cent increase in Thailand, 43 per cent in Hong Kong and 30 per cent in Singapore.

The report says: "In terms of relative market valuation, European markets such as Spain and Sweden look more attractive than the US."

EMERGING MARKET FOCUS

Tiger acquires taste for noodles

One measure of South Korea's fall from grace is that its once-proud export industries - cars, ships, and semiconductors - are being abandoned by foreign investors. Instead, interest has shifted to such humble companies as Nong Shim, a maker of instant noodles.

What has made Nong Shim a favourite among investors is that it is practically debt-free as opposed to Hyundai, Samsung and Korea's other big conglomerates, or *chaebol*, with average debts five times equity because of costly diversification.

Analysts predict investors will concentrate on Nong Shim and other mid-sized companies with low debt when the foreign shareholding ceiling, now 55 per cent, is abolished on Friday.

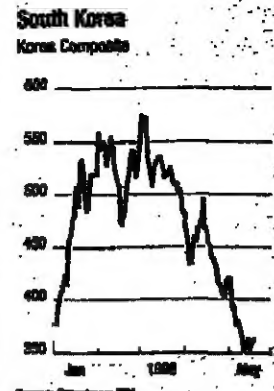
But a defensive strategy based on corporate solvency is not likely to revive the Seoul bourse, which is hovering near an 11-year low, because low-debt companies represent only a handful of listed companies.

ING Barings estimates that nearly 70 per cent of the Korean companies it follows are considered "distressed", and they account for 80 per cent of the debt for the entire market.

Moreover, the Seoul bourse is likely to remain in the doldrums because of fears over more bankruptcies among main industrial groups and threats of labour unrest as the *chaebol* begin the painful task of shedding workers. A weakening of the won is also likely to scare off overseas investors.

Analysts believe the market will not recover until the main *chaebol* are seen to adopt the conservative management practices of the likes of Nong Shim, which concentrated on its core food business.

Other favoured businesses with low debts include circuitboard maker Dae Duk Electronics, the security ser-



vice company SI, the Pusan and Seoul city gas companies and Namhae Chemical. Several blue-chip companies are considered to be in the charmed circle. SK Telecom, which dominates the local mobile telephone market, has a combination of low debts and high operating margins. Although 1997 net profits fell by 42 per cent because of strong competition, the recession is likely to weaken or eliminate many rivals.

State-run Pohang Iron & Steel, one of the world's largest and most efficient steel-makers, also has a low debt burden compared with other big Korean companies.

Analysts also favour nearly debt-free Sincorich, which produces fax and copying machines that it exports on an original equipment manufacturing basis to its Japanese partner, Ricoh. Other strong picks include Medison, a highly profitable medical diagnostics company that has captured 70 per cent of the world's ultrasound equipment market, the semiconductor equipment maker Mira, and LG Information & Communications.

The shares of the favoured few are likely to be expensive as they are chased by too many investors.

John Burton

Dow rises as interest rate fears subside

AMERICAS

A broad-based rally lifted share prices on Wall Street as the market rebounded from the declines of recent sessions, writes Richard Waters in New York.

The market's bounce also reflected a belief that the Federal Reserve's open market committee, meeting yesterday, would decide to leave short-term interest rates unchanged - which proved to be the case.

The Dow Jones Industrial Average was trading at 9,062.37 by mid-afternoon, a rise of 11.46. The Standard & Poor's 500 index shadowed this rise, climbing 2.75 to 1,108.54. The Nasdaq composite rose 3.57 or 0.8 per cent to 471.31.

Technology stocks registered some of the biggest advances, with International Business Machines rising \$2½ to \$126½ and Dell jumping \$1½ to \$89½.

In early trading, Microsoft recovered some of the losses suffered the day before on news of the Justice Department's antitrust action. By early afternoon, however, the 8½ gain had largely been erased.

Netscape, which could benefit from the Justice Department's move, rose \$1½ to \$3.8 per cent to \$25½.

Technology stocks were the most actively traded on the New York Stock Exchange, led by Compaq, which gained ½ to \$30½, and Hewlett-Packard, which rose ½ to \$86½.

Internet provider America Online's announcement of a new venture in digital pho-

tography with Eastman Kodak also fuelled heavy trading, with its shares climbing \$3 to \$96½.

Among stocks in the Dow, DuPont's shares jumped 3½ or nearly 4 per cent to \$83½, after the company announced that it would buy out Merck's share in a joint venture between the two companies. Merck, another Dow stock, gained \$1½ to \$114½.

Other drug companies also rose. Both American Home Products and Warner-Lambert touched new record highs, with AHP up \$½ to \$50½ and Warner-Lambert climbing \$3½ to \$197½.

Giant Foods, a supermarket chain, surged nearly 14 per cent on news of a takeover offer from Ahold, the Dutch retail group. The company's stock was \$5½ higher at \$42½.

TORONTO moved lower with weaker golds and base metals plus some high-profile profit-taking at Seagram counteracting the strong start on Wall Street. The 300 composite index was down 21.82 at 7,662.20 at noon.

Golds were unsettled by the softening bullion price and the heavyweight counters in the sector fell sharply. Barrick Gold came off 85 cents at C\$30.95 and Placer Dome fell just as precipitously, losing 50 cents to C\$20.10.

Seagram tumbled C\$1.10 to C\$59.15 as investors opted to pocket some of the profits racked up in recent sessions by hopes for a link with PolyGram of the Netherlands.

Fed hopes lift Dax to record

EUROPE

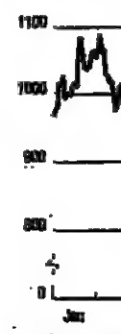
Early strength on Wall Street and a growing conviction that the Fed's open market committee would leave US interest rates unchanged sent FRANKFURT into record territory.

The Xetra Dax index peaked at an intra-day 5,446.03 before edging back in late electronic trade to close 97.34 or 1.8 per cent higher at a record 5,440.00. Financials regained ground lost on Monday as concerns eased about political unrest in Indonesia.

Deutsche Bank put on DM4 to DM157.30, Dresdner Bank 56½p to DM101.90 and Allianz DM30.60 to DM55.50. RWB was an outperformer, rising DM5.10 to DM54.80 as

VING

Share price (Dm)



the market continued to take an upbeat view on its nine-month results.

Ving rose DM32.10 to DM496.10 in response to slightly better than expected 1997 and first-quarter results.

BMW stood out among the motor stocks with a rise of DM86.60 to DM2,028. PARIS climbed to within a whisker of 4,000 on the CAC 40 index before closing 35.53 higher at 3,980.84 in some of the best volume of the year with 27.3m shares changing hands.

Lagardere rose FF16 to FF242.10 following positive statements at the annual meeting, and France Telecom, the day's top performer, advanced FF15.50 or 4.9 per cent to FF335

in turnover of FF785m. Banks put aside Monday's worries about Asian exposure and a possible rise for US interest rates. BNP gained FF19 to FF338 and Société Générale FF32 to FF21.218. Danone added FF19 to FF1,535 on optimism from the annual meeting. News of a property disposal lifted Axa-UP FF17 to FF169.

Oil tracked softer oil prices with Elf Aquitaine dipping FF14 to FF7850 and Total, where sentiment was not helped by news of plans for a temporary closure of Dutch refining capacity, shed FF21 to FF748.

ZURICH recovered after Monday's 2 per cent fall but activity was subdued as investors awaited news of US interest rates. The SMI index climbed 111.8 or 1.5 per cent to 7,483.2.

The pharmaceutical heavyweights, which saw selling on Monday, were among the biggest gainers. Roche certificates recouped SF200 to SF14,990 and Novartis SF73 to SF2,444.

Financials were higher in spite of lingering concerns about the outlook for US interest rates. UBS climbed SF41 to SF2,546 and its merger partner, SBC, gained SF8 to SF548.

SMH bearers were marked SF42 higher to SF1,247 after Merrill Lynch issued a strong buy recommendation on the stock and set a price target of SF1,500.

AMSTERDAM pushed higher as concerns about US interest rates were put on hold and a number of strong corporate stories supported sentiment. The AEX index ended 25.83 better at 1,171.40.

KLM surged FF3.30 to FF79.80 ahead of what are widely expected to be soaring results today. Ahold jumped FF3.70 or 5.7 per cent to FF68.50 after a major expansion of US interests. The group is bidding \$3bn for Giant Food, and Ahold yesterday combined the takeover news with an upbeat trading statement.

ASM Lithography rose FF1.70 to FF184 and rival techs group Beas gained

and financials also climbed 0.5 per cent to 3,867.5. Golds, weighed down by a weak bullion price, gave up 1.3 per cent to 1,023.5.

Gold Fields Coal was a big gainer, jumping R1.60 to R12 after Merrill Lynch upgraded its rating on the stock.

FI 2.40 to FI 92.70. Steel giant Hoogovens was a dull feature, slipping FI 2.30 to FI 903.50.

MILAN rebounded almost 3 per cent, boosted by the gap on Wall Street as the FOMC meeting got underway. The real-time Mibtel index climbed 677 to 23,830. Telecom Italia and ENI were boosted by the US-Eu-

rose L96 to L3,670, calling a halt to its slide over the previous two sessions, which followed disappointment that no merger with BCI was planned. BCI was L328 higher at L10,005.

Generali jumped L2.091 to L54,900 as Morgan Stanley recommended the stock and set a price target of L65,000 based on the strength of the company in the domestic market and the insurer's prospects in Europe.

MADRID was supported by another active session for Endesa, where retail demand stayed strong ahead of next month's formal pricing of the \$80n international privatisation offer. Shares in the utility rose Pta 110 to Pta 3,560 after it was learned that retail investors had already bid more than 1.5 times their allocation of 70 per cent of the total issue.

At the close, the general index was 12.72 higher at 988.43. MOSCOW regained its footing after the sharp falls of the past week and the RTS index ended 8.97 higher at 236.53. The rebound came after the central bank stepped in to impose sharp rises in the key refinancing and Lombard rates, which calmed government securities and eased fears in the stock market.

Written and edited by Michael Morgan, Peter Hall, Jeffrey Brown, Paul Grogan

São Paulo rallies on cue

SAO PAULO rallied in early trading, taking its cue from the strong opening tone on Wall Street and the better performance within a number of emerging markets, notably Russia and Indonesia.

Market heavyweight Telebras, which tumbled more than 7 per cent on Monday when fears for higher US interest rates were rife and shares in Moscow fell more than 11 per cent, rebounded 3.2 per cent to R\$128.

"For the moment all the devaluation scare stories

that were doing the rounds yesterday have been put on hold," said one broker.

Among other blue chips, Petrobras gained 1.2 per cent to R\$41 and Eletrobras 1.7 per cent to R\$45.70.

At mid-session, the benchmark Bovespa index was showing a gain of 193 or 1.9 per cent at 10,388.

MEXICO CITY made more modest upward progress with the IBC index up 23.03 at 4,689.54 at mid-session. Telcel mostly stayed on the sidelines, ending the morning off 10 centavos to 21.70.

Golds fall in spite of surge

SOUTH AFRICA

The Dow's strong opening gave Johannesburg a late boost after the market had clung on to small gains for much of the session.

The overall index ended 0.5 per cent higher at 8,121.6

and financials also climbed 0.5 per cent to 3,867.5. Golds, weighed down by a weak bullion price, gave up 1.3 per cent to 1,023.5.

Gold Fields Coal was a big gainer, jumping R1.60 to R12 after Merrill Lynch upgraded its rating on the stock.

Jakarta soars after Suharto pledge

ASIA PACIFIC

A promise of new elections and a pledge from President Suharto that he would not run again sent JAKARTA 6.4 per cent higher.

However, the very low level of business tended to exaggerate price movements and indicated that many uncertainties remain.

The composite index rose 24.90 to 413.82 as hopes grew that the president's comments increased the likelihood that he would depart gracefully and without violence. Turnover of about Rp300bn-Rp400bn.

Shares linked to the Suharto family were among the strongest gainers. Bimantara rose Rp125 to Rp425, Astra rose Rp100 to Rp100 and Cirta Marga was flat at Rp375.

TOKYO also received a significant boost from indications that President Suharto would step down, writes Paul Abrahams.

Banks and trading companies with exposure to Indonesia rebounded, helping the benchmark Nikkei 225 average to gain 167.18 or 1.1 per cent to 15,551.85, having traded between 15,382.87 and 15,309.19.

The recovery was broadly based, with the Topix index of all first-session stocks gaining 10.7 or 0.8 per cent to 1,319.56. The momentum was up, with 708 shares higher, 378 down and 155 unchanged. Volumes remained subdued, however, at 347m shares.

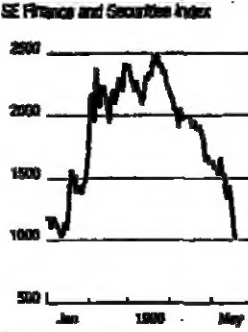
The banking sector gained 2.3 per cent. Sakura Bank gained Y28 at Y437, Bank of Tokyo Mitsubishi Y25 at Y1,530, Nippon Credit Bank Y4 to Y132, Sumitomo Bank Y30 to Y1,319 and LTCB Y2 to Y212. Among the trading companies, Tomon recovered Y4 to Y108, and Itochu Y8 to Y312, in spite of the latter issuing a profits warning.

Ishikawa Saisakusho, a textile machinery maker with extensive operations in Indonesia, jumped 11 per cent to Y229. It was the fourth most heavily traded stock on the exchange.

The weakness of the yen continued to cause problems for sectors importing dollar-denominated raw materials. The oil sector, which is also suffering from falling petrol pump prices, fell 1.9 per cent. Nippon Oil dropped Y34 or 5 per cent to Y438.

Casio, the electronics group which announced startlingly good results as well as an ambitious profit

SEMI-CONDUCTOR AND SECURITY INDEX



forecast for the current year, jumped Y120 or 10 per cent to Y1,305.

News that Kajima, the construction company, would post an extraordinary loss of Y310bn in the current financial year came after the market closed. The stock ended down 1.9 per cent at Y350.

The Nikkei 225 average traded in a range between 15,582 and 15,309. In Osaka, the OSE index closed up 136 at 16,340.

KARACHI plunged 5 per cent to a 56-month low in response to an interim court order slashing blue chip Hub Power's tariff by more than a half. The KSE-100 index dropped 68.27 to 1,308.06 as

the court decision further depressed a market already bearish in the wake of the nuclear row between Pakistan and India.

Hub Power fell Rs2.30 to Rs23.25 and Shell Pakistan Rs26.90 to Rs262.

Analysts said the court ruling was the latest development in a row over alleged overpricing and suspected corruption between independent Power Producers and the government that has unnerved the stock market and soured the investment climate.

BANGKOK continued to move lower with the finance sector sliding steeply for the second day running. The SET index ended off 10.75 or 3 per cent at 346.46.

Banks fell 4.9 per cent and the finance sector 13.2 per cent for a two-day decline of 25 per cent. Dhana Siam Finance, which announced the postponement of a rights issue, shed Bt1.70 to Bt4.20. Bangkok Bank came off Bt4 to Bt166.

MANILA remained a casualty of regional sentiment, falling to a three-month low with the composite index off 56.50 or 2.7 per cent at 2,068.91.

Ayala Land fell 1 peso to 14.25 pesos and San Miguel B lost 1.50 pesos to 58.50 pesos.

CHINA MERCHANTS CHINA DIRECT INVESTMENTS LIMITED			
(Incorporated in Hong Kong with limited liability)			
ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 1997			
The Board of Directors of China Merchants China Direct Investments Limited (the "Company") is pleased to announce that the audited consolidated results for the year ended 31 December 1997 of the Company and its subsidiaries (the "Group") together with the 1996 comparative figures are as follows:			
	1997	1996	
TURNOVER	7,284,066	6,912,957	US\$
Operating profit excluding exceptional items	4,830,845	4,736,002	
Exceptional items (Note 1)	3,064,057	2,606,341	
Profit from ordinary activities	10,093,902	7,342,343	
Share of results of associated companies	365,306	212,578	
Profit from ordinary activities before taxation	11,269,208	7,554,921	
Taxation (Note 2)	(195,977)	(165,105)	
Profit attributable to shareholders	11,113,231	7,491,816	
Interim dividends	(1,428,001)	(952,400)	
Final dividends	(4,285,800)	(4,732,000)	
Profit for the year, retained	5,399,430	1,777,416	
Earnings per share (Note 3)	0.1117	0.076	
Proposed final dividend per share	0.045	0.030	
Net asset value per share (Note 4)	1.107	1.075	
Notes:			
1. Exceptional items represent:			
	1997	1996	
Gains on disposal of subsidiaries	4,661,905	1,528,230	
Gains on disposal of fixed investments	2,623,886	1,478,109	
Loss on revaluation of fixed investments	(1,161,594)	(121,176)	
Provision for diminution in value of unlisted investments	(12,098,000)	-	
	1,924,097	2,864,063	
2. Hong Kong profits tax is provided at 16.5% (1996: 16.5%) on the estimated assessable profits for the year. Taxation is provided at various rates prevailing in the relevant jurisdictions.			
No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.			
3. The calculation of earnings per share is based on the profit for the year of 10,093,902 (1996: 7,342,343) and 9,240,000 (1996: 6,912,957) ordinary shares in issue during the year.			
4. The calculation of the net asset value per share is based on the net assets of US\$10,391,230 (1996: US\$10,436,301) and 95,240,000 (1996: 95,240,000) ordinary shares of US\$0.10 each in issue.			
DIVIDENDS			
An interim dividend of US\$0.045 per share was paid in cash to shareholders on 26 September, 1997.			
The Board of Directors has resolved to recommend at the forthcoming Annual General Meeting to be held on Monday, 29 June 1998 the payment of a final dividend of US\$0.045 (approximately 192,500,000) per share. This final dividend, if approved, will be paid on 18 July, 1998 in cash to shareholders whose names appear on the Register of Members on 29 June 1998. Total dividend for the year is US\$0.09 per share.			
By Order of the Board Elizabeth Ka-Yee Kuo Company Secretary			
Hong Kong, 14 May 1998			

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The Governor and Company of the
BANK OF SCOTLAND
(Incorporated in Scotland under the Companies Act 1985)
U.S. \$250,000,000

Undated Floating Rate Primary Capital Notes

Notices are hereby given that the Rate of Interest has been fixed at 6.00 p.a. and that the interest payable on the relevant Interest Payment Date, November 20, 1998 against coupon No. 26 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$306.67 and in respect of U.S.\$250,000 nominal of the Notes will be U.S.\$7,666.67.

May 20, 1998, London
By Citibank N.A. (Corporate Agency & Trust Agent Bank)

CITIBANK